

In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See "Tax Exemption" and "Certain Other Federal Tax Consequences" under "Legal and Tax Information" herein.

THE CITY OF SEATTLE, WASHINGTON

\$32,500,000

WATER SYSTEM ADJUSTABLE RATE REVENUE BONDS, 2002, SERIES A

\$32,500,000

WATER SYSTEM ADJUSTABLE RATE REVENUE BONDS, 2002, SERIES B

DATED: Date of Delivery

DUE: March 1, 2032

The Bonds are adjustable rate bonds bearing interest initially in the Weekly Mode in Authorized Denominations of \$100,000 or any integral multiple thereof. While the Bonds of a series are in the Weekly Mode, interest is payable on the first Wednesday of each month. Principal is payable upon maturity, redemption or purchase, as described herein. The initial interest rates will be determined on the date of delivery and will remain in effect through and including the following Tuesday.

The interest rates and interest periods on the Series A Bonds are to be determined by J.P. Morgan Securities Inc., as the Remarketing Agent for the Series A Bonds, and the interest rates and interest periods on the Series B Bonds are to be determined by Lehman Brothers Inc., as the Remarketing Agent for the Series B Bonds. Upon satisfaction of the conditions described herein, each series of Bonds may be converted to or from a Weekly Mode, Daily Mode, Commercial Paper Mode, Term Mode, or Auction Mode, or to a Fixed Rate Mode. All Bonds of a series must be in the same Mode, but the Mode of one series may be changed independently of the other series.

The Bonds will be issued as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases of interests in the Bonds will be made in book-entry only form in Authorized Denominations. Purchasers of such interests will not receive certificates representing their interests in the Bonds. While DTC or its nominee is the registered owner of the Bonds of a series, principal and interest are payable directly to DTC by BNY Western Trust Company, Los Angeles, California, as the initial tender and paying agent and bond registrar for the Bonds (the "Tender and Paying Agent"). Upon receipt of payments of principal and interest, DTC will remit such principal and interest to the DTC Participants for subsequent disbursement to the purchasers of beneficial interests in the Bonds, as described herein in Appendix D—Book-Entry Transfer System.

The Bonds of each series are subject to optional redemption by the City and optional tender and mandatory tender by the Owners. See "Description of the Bonds—Mandatory Tender of Bonds" and "—Redemption of Bonds."

The Bonds are being issued to finance certain capital improvements to and conservation programs for the City's Water System and to pay the issuance costs of the Bonds. See "Use of Proceeds."

The principal of, premium, if any, and interest on the Bonds are payable solely from the Gross Revenue of the City's Water System, after the payment of Operation and Maintenance Expenses, including the obligation of the City to make payments under certain contract resource obligations, and after payment of principal of and interest on and funding the reserve requirement, if any, of the Prior Lien Bonds, as defined herein. The Bonds are issued on a parity of lien with the 1995 Bonds, as defined herein. See "Security for the Bonds."

THE BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE CITY, THE STATE OF WASHINGTON (THE "STATE") OR ANY POLITICAL SUBDIVISION OF THE STATE, OR A CHARGE UPON ANY GENERAL FUND OR UPON ANY MONEY OR OTHER PROPERTY OF THE CITY OR THE STATE, OR OF ANY POLITICAL SUBDIVISION OF THE STATE, NOT SPECIFICALLY PLEDGED THERETO BY THE ORDINANCE. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, NOR ANY REVENUE OF THE CITY DERIVED FROM ANY SOURCES OTHER THAN THE WATER SYSTEM ARE PLEDGED TO THE PAYMENT OF THE BONDS.

Payments of principal of and interest and the Purchase Price of each series of the Bonds are supported by an irrevocable direct pay letter of credit (the "Letter of Credit") issued in favor of the Tender and Paying Agent for the benefit of the Owners of each series of Bonds by

BAYERISCHE LANDESBANK GIROZENTRALE

acting through its New York Branch (the "Bank"). Each Letter of Credit will permit the Tender and Paying Agent to draw an amount equal to the principal of and up to 64 days of interest on that series of Bonds at the Maximum Rate of 12 percent per annum. Each Letter of Credit will terminate on May 15, 2007, unless terminated earlier pursuant to the terms of the Letter of Credit. See "Summary of Certain Provisions of the Letters of Credit."

The Bonds are offered for delivery by the Remarketing Agents when, as and if issued, subject to the approving legal opinion of Foster Pepper & Sheffelman PLLC, Bond Counsel, Seattle, Washington. Certain legal matters in connection with the Bonds will be passed upon by Preston Gates & Ellis LLP, Seattle, Washington, counsel to the Remarketing Agents. Certain legal matters in connection with the Letters of Credit, the Reimbursement Agreements and the Bank will be passed upon for the Bank by Kutak Rock LLP, Atlanta, Georgia. It is expected that the Bonds will be available for delivery through the facilities of DTC in New York, New York, or to the Tender and Paying Agent on behalf of DTC by Fast Automated Securities transfer on or about May 15, 2002.

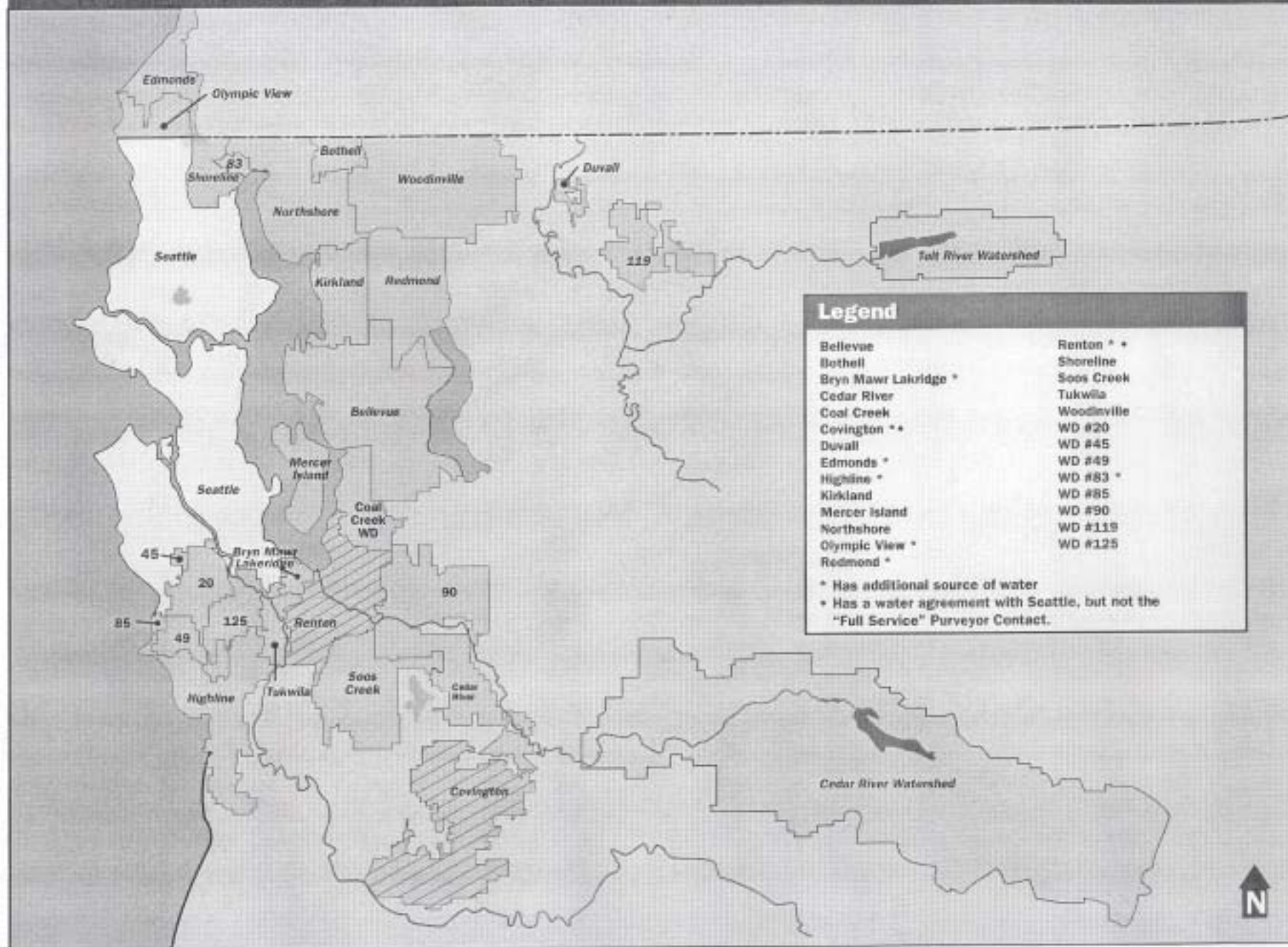
This Official Statement provides certain information concerning the Bonds of each series before conversion to an Auction Mode or Fixed Rate Mode. Owners and prospective purchasers of the Bonds should not rely on this Official Statement for information concerning either series of the Bonds on and after conversion of those Bonds to an Auction Mode or Fixed Rate Mode, but should look to the revisions, amendments, supplements, or substitutions of this Official Statement for information concerning the Bonds of the applicable series on or after such conversion date.

JPMorgan
Remarketing Agent for Series A Bonds

Lehman Brothers
Remarketing Agent for Series B Bonds

Dated: May 1, 2002

Jurisdictions buying water from Seattle



THE CITY OF SEATTLE
CITY OFFICIALS AND CONSULTANTS

Mayor and Council

Greg Nickels	Mayor
Margaret Pageler	President, City Council
Jim Compton	Council Member
Richard Conlin	Council Member
Jan Drago	Council Member
Nick Licata	Council Member
Richard McIver	Council Member
Judy Nicastro	Council Member
Peter Steinbrueck	Council Member
Heidi Wills	Council Member

City Administration

Dwight D. Dively	Director of Finance
Thomas A. Carr	City Attorney

Seattle Public Utilities

Chuck Clarke	Director
Nick Pealy	Finance and Administration Branch Executive
Patricia Colson	Customer Service Branch Executive
Nancy Ahern	Resource Planning Branch Executive
Thomas J. Tanner	Engineering Services Branch Executive
Scott Haskins	Field Operations Branch Executive

Financial Advisor

Seattle-Northwest Securities Corporation
Seattle, Washington

Bond Counsel

Foster Pepper & Shefelman PLLC
Seattle, Washington

No dealer, broker, salesperson, or any other person has been authorized by the City to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of the Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create an implication that there has been no material change in the affairs of the City since the date of this Official Statement. The Remarketing Agents have provided the following sentence for inclusion in this Official Statement. The Remarketing Agents have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agents do not guarantee the accuracy or completeness of such information.

The information set forth herein has been obtained from the City and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness.

ADDRESSES AND PHONE NUMBERS OF PRINCIPAL PARTIES

The City of Seattle	700 Fifth Avenue, Suite 4200 Seattle, Washington 98104 Attention: Director of Finance Telephone: (206) 684-8347 Telecopy: (206) 684-5170
Seattle Public Utilities	710 Second Avenue, Tenth Floor Seattle WA 98104 Attention: Finance and Administration Branch Executive Telephone: (206) 684-7646 Telecopy: (206) 470-6824
Tender and Paying Agent	BNY Western Trust Company 700 South Flower Street, Suite 500 Los Angeles CA 90017 Attention: Northwest Unit Telephone: (213) 630-6461 Telecopy: (213) 630-6480
Remarketing Agent, Series A Bonds	J.P. Morgan Securities Inc. 270 Park Avenue, Seventh Floor New York NY 10017 Attention: Short-Term Manager Telephone: (212) 834-7175 Telecopy: (212) 834-6737
Remarketing Agent, Series B Bonds	Lehman Brothers Inc. 745 Seventh Avenue, Fourth Floor New York NY 10019 Attention: Short-Term Municipals Telephone: (212) 528-1011 Telecopy: (646) 758-2554
Bank	Bayerische Landesbank Girozentrale North American Region, New York Branch 560 Lexington Avenue New York NY 10022 Attention: Public Finance Telephone: (212) 310-9800 Telecopy: (212) 310-9841

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OFFICIAL STATEMENT

THE CITY OF SEATTLE, WASHINGTON

\$32,500,000
WATER SYSTEM ADJUSTABLE RATE
REVENUE BONDS, 2002, SERIES A

\$32,500,000
WATER SYSTEM ADJUSTABLE RATE
REVENUE BONDS, 2002, SERIES B

This Official Statement, which includes the cover page and the appendices, contains certain information concerning The City of Seattle (the “City” or “Seattle”), the City’s Water System Adjustable Rate Revenue Bonds, 2002, Series A (the “Series A Bonds”) and Water System Adjustable Rate Revenue Bonds, 2002, Series B (the “Series B Bonds” and together with the Series A Bonds, the “Bonds”), Seattle Public Utilities (“SPU”), and the City’s water system, referred to in the ordinance authorizing the issuance of the Bonds as the “Municipal Water System” (the “Water System”), in connection with the offering and sale of the Bonds.

The Bonds are being issued to finance certain capital improvements to and conservation programs for the Water System and to pay the issuance costs of the Bonds. The Bonds are to be issued pursuant to chapter 35.92 Revised Code of Washington (“RCW”), the Seattle City Charter, Ordinance 120548, passed by the City Council on October 15, 2001 (the “Ordinance”), and a resolution with respect to each series of the Bonds to be adopted by the City Council (together, the “Resolution”).

The City has previously issued its \$256,255,000 Water System and Refunding Revenue Bonds, 1993 (the “1993 Bonds”); \$53,000,000 Water System Revenue Bonds, 1997; \$80,000,000 Water System Revenue Bonds, 1998; \$100,000,000 Water System Revenue Bonds, 1999; \$110,000,000 Water System Revenue Bonds, 1999B; and \$52,525,000 Water System Revenue Bonds, 2001. Together with any additional bonds issued on the same parity of lien, these bonds are referred to as the Prior Lien Bonds. As of March 1, 2002, \$562,890,000 principal amount of Prior Lien Bonds was outstanding. The lien on the Net Revenue of the Water System of the Bonds is subordinate to the lien on such revenue of the Prior Lien Bonds and equal to the lien on such revenue of the City’s \$45,000,000 Water System Adjustable Rate Revenue Bonds, 1995 (the “1995 Bonds”), of which \$42,900,000 was outstanding as of March 1, 2002.

Payments of principal of and interest on each series of the Bonds, and the Purchase Price of that series of Bonds tendered for optional purchase and mandatory purchase, are supported by an irrevocable direct pay letter of credit for each series of Bonds (the “Letter of Credit”) issued in favor of the Tender and Paying Agent (initially BNY Western Trust Company, Los Angeles, California) for the benefit of the Owners of that series of Bonds by Bayerische Landesbank Girozentrale acting through its New York Branch (the “Bank”). Each Letter of Credit will permit the Tender and Paying Agent to draw an amount equal to the principal of and up to 64 days of interest on that series of Bonds at the Maximum Rate of 12 percent per annum. Each Letter of Credit will expire on May 15, 2007, subject to earlier termination as described herein. See “Summary of Certain Provisions of the Letters of Credit—Reimbursement Agreements.”

Appendix A to this Official Statement is a copy of the Ordinance. Appendix B is the form of approving legal opinions of Foster Pepper & Shefelman PLLC of Seattle, Washington (“Bond Counsel”). Appendix C is the Water System’s audited 2001 financial statements. Appendix D is a description of DTC procedures with respect to book-entry bonds.

Capitalized terms that are not defined herein have the meanings set forth in Section 1 of the Ordinance and in the Resolution. All times referred to herein are New York times.

THIS OFFICIAL STATEMENT PROVIDES CERTAIN INFORMATION CONCERNING THE BONDS OF EACH SERIES PRIOR TO CONVERSION TO AN AUCTION MODE OR FIXED RATE MODE. OWNERS AND PROSPECTIVE PURCHASERS OF THE BONDS SHOULD NOT RELY ON THIS OFFICIAL STATEMENT FOR INFORMATION CONCERNING EITHER SERIES OF THE BONDS ON AND AFTER CONVERSION TO AN AUCTION MODE OR FIXED RATE MODE, BUT SHOULD LOOK TO THE REVISIONS, AMENDMENTS, SUPPLEMENTS, OR SUBSTITUTIONS OF

THIS OFFICIAL STATEMENT FOR INFORMATION CONCERNING THE BONDS OF THAT SERIES ON OR AFTER SUCH CONVERSION DATE.

DESCRIPTION OF THE BONDS

General Description

The Bonds will be issued in the aggregate principal amount of \$65,000,000, of which \$32,500,000 principal amount will be Series A Bonds and \$32,500,000 principal amount will be Series B Bonds. The Bonds of each series will be dated and bear interest from the date of their delivery and will mature on March 1, 2032, subject to earlier redemption as described herein.

The Bonds of each series will be fully registered as to both principal and interest and will be initially issued in Authorized Denominations of \$100,000 or any integral multiple thereof. When issued, the Bonds will be registered in the name of Cede & Co., as registered owner (the “Owner”) and nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as the initial securities depository for the Bonds of each series. Individual purchases may be made in book-entry form only. Purchasers will not receive certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the Owner of the Bonds of a series, references herein to the registered owner or Owner of the Bonds of that series will mean Cede & Co. and will not mean the beneficial owners of the Bonds. In this Official Statement, the term “beneficial owner” will mean the person for which a DTC participant acquires an interest in the Bonds.

So long as the Bonds of a series are in book-entry only form, payments of the principal of and interest on those Bonds will be made by the Tender and Paying Agent to DTC which, in turn, is obligated to remit such payments to the DTC participants for subsequent disbursement to the beneficial owners of those Bonds. See Appendix D—Book-Entry Transfer System.

The Bonds of each series will be issued initially in the Weekly Mode at an interest rate determined on or prior to the date of delivery of the Bonds. Subsequent interest rates and interest periods for the Bonds of each series will be determined by the City and the applicable Remarketing Agent in accordance with the Resolution and the applicable Remarketing Agreement, as described herein. The determination of each interest rate and interest period will be conclusive and binding, in the absence of manifest error, upon the applicable Remarketing Agent, the Tender and Paying Agent, the Bank, the City, and the Owners and beneficial owners of the Bonds of each series. No Bonds may bear interest at an interest rate higher than the Maximum Rate, which is the lesser of the maximum rate permitted by law or the per annum interest rate used to calculate the Letter of Credit Interest Amount, initially 12 percent per annum.

Upon satisfaction of the conditions described herein, each series of Bonds may be converted to or from the Weekly Mode to or from a Daily Mode, a Commercial Paper Mode, a Term Mode, or an Auction Mode, or to a Fixed Rate Mode. All Bonds of a series must be in the same Mode, but the Mode of one series may be changed independently of the other series.

Weekly Mode

General. The Bonds of each series initially will be in the Weekly Mode and will bear interest at Weekly Rates determined independently by the applicable Remarketing Agent as described herein. In the Weekly Mode, Bonds will be in Authorized Denominations of \$100,000 or any integral multiple thereof. Interest on Bonds in the Weekly Mode will be calculated on the basis of a 365/366-day year for the actual number of days elapsed and will be paid on the first Wednesday of each month, or on any Mode Change Date, the effective date of any substitute Letter of Credit or the Maturity Date (each, an “Interest Payment Date”). During the Weekly Mode, interest will be payable to each Owner as of the applicable Record Date by wire transfer of immediately available funds to the account specified by such Owner in a written notice delivered to the Tender and Paying Agent prior to the Record Date (such direction to remain in effect until revoked or revised by such Owner in a subsequent written notice delivered to the Tender and Paying Agent).

The “Record Date” for Bonds in the Weekly Mode is the day (whether or not a Business Day) next preceding each Interest Payment Date. (“Business Day” is defined in the Resolution as a day which is not (i) a Saturday or Sunday or a day on which the Tender and Paying Agent, the Remarketing Agent, the Bank, or banking institutions in Seattle, Washington, Los Angeles, California, or New York, New York, are authorized or required to be closed, or (ii) a day on which the New York Stock Exchange is closed.) The Tender and Paying Agent will establish a Special Record Date for the payment of any defaulted interest.

Determination of Weekly Rates. The interest rate for Bonds of a series in the Weekly Mode will be the rate of interest per annum determined by the City and the applicable Remarketing Agent by 4:00 p.m. on the Rate Determination Date as the minimum rate of interest that, in the opinion of the Remarketing Agent under then-existing market conditions, would result in the sale of those Bonds on the Rate Determination Date at a price equal to the principal amount thereof, plus accrued interest, if any. Each Remarketing Agent will make the Weekly Rates available by telephone to any Owner or beneficial owner requesting such rates. Each Weekly Rate will be in effect for the applicable Interest Period.

The Rate Determination Date in the Weekly Mode is the Business Day before any Mode Change Date if the Bonds of a series are converted to the Weekly Mode, and thereafter, each Tuesday or, if any Tuesday is not a Business Day, the next succeeding day or, if such day is not a Business Day, the next preceding Business Day. The Interest Period in the Weekly Mode is the period beginning on the applicable Mode Change Date to and including the following Tuesday, and, thereafter, beginning on each Wednesday to and including the following Tuesday. Notwithstanding the foregoing, the initial Rate Determination Date for the Bonds of each series will be the date of delivery of the Bonds, and the initial Interest Period will begin on the date of delivery and continue through and including the following Tuesday.

Tender of Bonds in Weekly Mode. The Owners of Bonds of either series in a Weekly Mode may elect to have their Bonds (or portions of such Bonds in amounts equal to an Authorized Denomination) purchased on any Business Day specified by the Owner (the “Purchase Date”) at a price equal to the principal amount thereof plus accrued interest, if any, to the Purchase Date (the “Purchase Price”) upon delivery of an irrevocable written notice of tender or irrevocable telephonic notice of tender to the applicable Remarketing Agent, promptly confirmed in writing to the Tender and Paying Agent, not later than 4:00 p.m. on any Business Day which is not less than seven days before the Purchase Date.

The notice must:

- (i) state the Bond number, CUSIP number and principal amount of such Bond or portion thereof to be purchased, and
- (ii) state that such Bond will be purchased on the Purchase Date.

The Owner must deliver each Bond to be purchased to the Tender and Paying Agent in accordance with the procedures described herein under “Delivery and Purchase of Bonds Subject to Optional or Mandatory Tender.” An Owner who gives the notice as set forth above may repurchase the Bonds so tendered on the Purchase Date if the applicable Remarketing Agent agrees to sell the Bonds so tendered to such Owner. If such Owner decides to repurchase such Bonds and the applicable Remarketing Agent agrees to sell the specified Bonds to such Owner, the delivery requirements set forth above will be waived.

Bonds in the Weekly Mode are also subject to mandatory tender for purchase, as described herein under “Mandatory Tender of Bonds.”

Daily Mode

General. In the Daily Mode, the Bonds of each series will be in Authorized Denominations of \$100,000 or any integral multiple thereof. Interest on Bonds in the Daily Mode will be calculated on the basis of a 365/366-day year for the actual number of days elapsed and will be paid on the first Wednesday of each month, or on any Mode Change Date, the effective date of any substitute Letter of Credit or the Maturity Date (each, an “Interest Payment Date”). Interest will be payable to the Owners as of the applicable Record Date by wire transfer of immediately available funds to the account specified by the Owner of such Bond in a

written notice delivered to the Tender and Paying Agent prior to the Record Date (such direction to remain in effect until revoked or revised by such Owner in a subsequent written notice delivered to the Tender and Paying Agent). The “Record Date” for Bonds in the Daily Mode is the last day of each month (whether or not a Business Day).

Determination of Daily Rates. The interest rate for Bonds of a series in the Daily Mode is to be determined by the City and the applicable Remarketing Agent by 10:00 a.m. on each Rate Determination Date as the minimum rate of interest that, in the opinion of the Remarketing Agent under then-existing market conditions would result in the sale of those Bonds on the Rate Determination Date at a price equal to the principal amount thereof, plus accrued interest, if any. Each Remarketing Agent will make the Daily Rate available by telephone to any Owner or beneficial owner requesting such rate. Each such rate will be in effect for the applicable Interest Period.

The Rate Determination Date in the Daily Mode is each Business Day commencing with the first day that the Bonds of a series become subject to the Daily Mode. The Daily Rate for any day during the Daily Mode that is not a Business Day will be the Daily Rate established on the immediately preceding Rate Determination Date. The Interest Period for Bonds in the Daily Mode is the period from and including each Rate Determination Date to (but excluding) the next Business Day.

Tender of Bonds in Daily Mode. The Owners of Bonds of either series in a Daily Mode may elect to have their Bonds (or portions of such Bonds in amounts equal to an Authorized Denomination) purchased on any Business Day at a price equal to the principal amount thereof plus accrued interest, if any, to the Purchase Date (the “Purchase Price”) upon delivery of an irrevocable telephone notice of tender to the applicable Remarketing Agent, promptly confirmed in writing to the Tender and Paying Agent, not later than 10:00 a.m. on the Purchase Date specified by the Owner. Each such notice must include the information described for notices of tender under “Optional Tender of Bonds in the Weekly Mode” and must be delivered in accordance with the procedures described herein under “Delivery and Purchase of Bonds Subject to Optional or Mandatory Tender.” An Owner who gives the notice as set forth above may repurchase the Bonds so tendered on the Purchase Date if the applicable Remarketing Agent agrees to sell the Bonds so tendered to such Owner. If such Owner decides to repurchase such Bonds and the applicable Remarketing Agent agrees to sell the specified Bonds to such Owner, the delivery requirements set forth above will be waived.

Bonds in the Daily Mode are also subject to mandatory tender for purchase, as described herein under “Mandatory Tender of Bonds.”

Commercial Paper Mode

General. While in the Commercial Paper Mode, the Bonds of a series will be in Authorized Denominations of \$100,000 or any integral multiple thereof. Interest on Bonds in the Commercial Paper Mode will be calculated on the basis of a 365/366-day year for the actual number of days elapsed, and will be paid on the Purchase Date established for each Bond or on any Mode Change Date, the effective date of any substitute Letter of Credit or the Maturity Date (each, an “Interest Payment Date”). The Purchase Date for each Bond in the Commercial Paper Mode is the date determined by the applicable Remarketing Agent on the most recent Rate Determination Date for such Bond as the last day of the Interest Period for such Bond.

Determination of Commercial Paper Interest Periods and Rates. The Interest Period for each Bond of a series in a Commercial Paper Mode will be a period to be determined by the City and the applicable Remarketing Agent of at least one day but not more than 270 days from and including the Mode Change Date on which the Bonds of that series become subject to the Commercial Paper Mode to (but excluding) the Purchase Date, and, thereafter a period of at least one but not more than 270 days from and including such Purchase Date to (but excluding) the next Purchase Date. Each Interest Period will end on a day next preceding a Business Day or the Maturity Date. Different Interest Periods and interest rates may be set for each Bond of a series in the Commercial Paper Mode, as described herein. The Rate Determination Date for each Bond in the Commercial Paper Mode is the first day of the Interest Period for such Bond.

By 12:30 p.m. on each Rate Determination Date, the Remarketing Agent will select for each Bond in the Commercial Paper Mode which is subject to adjustment on such date the Interest Period which, if implemented on such Rate Determination Date, would result in the Remarketing Agent being able to remarket such Bonds at par in the secondary market at the lowest interest rate then available and for the longest Interest Period available at such rate. If on any Rate Determination Date the Remarketing Agent determines that current or anticipated future market conditions or anticipated future events are such that a different Interest Period would result in a lower average interest cost on such Bonds, then the Remarketing Agent will select the Interest Period which in the judgment of the Remarketing Agent would permit such Bonds to achieve such lower average interest cost. However, if the Remarketing Agent has received notice from the City that the Bonds are to be changed from the Commercial Paper Mode to any other Mode or if they are to be purchased upon expiration or substitution of the Letter of Credit, the Remarketing Agent will select Interest Periods which do not extend beyond the Mandatory Purchase Date.

By 12:30 p.m. on each Rate Determination Date, the Remarketing Agent must give notice to the Tender and Paying Agent of the new Owner(s), Interest Period(s), Purchase Date(s), and the Commercial Paper Rate(s) determined on each Rate Determination Date. On or after 4:00 p.m. on the Business Day next preceding each Rate Determination Date, any Owner may telephone the Remarketing Agent and receive notice of the anticipated next Interest Period(s) and the anticipated Commercial Paper Rate(s) for such Interest Period(s).

By acceptance of any Bond in the Commercial Paper Mode, the Owner thereof will be deemed to have agreed, during each Interest Period, to the Commercial Paper Rate (including the Alternate Rate, as defined below, if applicable), Interest Period and Purchase Date then applicable thereto and to have further agreed to tender such Bond to the Tender and Paying Agent for purchase on the next succeeding Purchase Date at the Purchase Price (as defined below).

Mandatory Purchase at End of Interest Period. Each Commercial Paper Bond is subject to mandatory purchase on the Purchase Date for the current Interest Period as determined by the Remarketing Agent on the Rate Determination Date at a price equal to the principal amount of such Bond (the "Purchase Price").

To receive payment of the Purchase Price, the Owner of any Bond in the Commercial Paper Mode must deliver such Bond to the Tender and Paying Agent in accordance with the procedures described herein under "Delivery and Purchase of Bonds Subject to Optional or Mandatory Tender."

NO NOTICE OF THE MANDATORY PURCHASE OF BONDS IN THE COMMERCIAL PAPER MODE WILL BE GIVEN TO THE OWNERS.

Term Rate Mode

In the Term Rate Mode, the Bonds will be in Authorized Denominations of \$5,000 or any integral multiple thereof. Interest on Bonds in the Term Rate Mode will be calculated on the basis of a 360-day year composed of twelve 30-day months, and will be paid on the first Business Day of each March and September before the Purchase Date and on the Purchase Date, or on any Mode Change Date, the effective date of any substitute Letter of Credit or the Maturity Date (each, an "Interest Payment Date").

Interest on Bonds in the Term Rate Mode will be payable to the Owners as of the applicable Record Date by check mailed to the Owners at the addresses appearing on the Bond Register as of the Record Date or, at the request to the Tender and Paying Agent of any Owner of at least \$1,000,000 in aggregate principal amount of the Bonds of a series, received before a Record Date, by wire transfer of immediately available funds to the account specified in such request. The Record Date for Bonds in the Term Rate Mode is the 15th day (whether or not a Business Day) of the month next preceding each Interest Payment Date.

Determination of Term Rate Interest Periods and Term Rates. The Interest Period for Bonds of a series in the Term Rate Mode will be a period to be determined by the City and the applicable Remarketing Agent of at least 271 days from and including the Mode Change Date on which the Bonds of that series become subject to the Term Rate Mode to (but excluding) the Purchase Date and, thereafter, from and including such Purchase Date to (but excluding) the next Purchase Date. The Term Rate to be effective for each Interest

Period while the Bonds of a series are in the Term Rate Mode will be determined by the applicable Remarketing Agent no later than 4:00 p.m. on the Rate Determination Date, as the minimum rate that, in the judgment of the Remarketing Agent, would result in a sale of the Bonds of that series at a price equal to the principal amount thereof on the Rate Determination Date. If a new Term Rate cannot be established for any reason, the Bonds in the Term Rate Mode will be changed automatically to the Weekly Mode on the Purchase Date.

Mandatory Purchase at End of Term Rate Mode Interest Period. While the Bonds of a series are in the Term Rate Mode, the Tender and Paying Agent will give written notice to all Owners of Bonds of that series no later than the 30th day preceding each Purchase Date stating that each such Owner is required to tender its Bonds for purchase on the Purchase Date at a Purchase Price equal to the principal amount thereof.

To receive payment of the Purchase Price, the Owner of any Bond in the Term Rate Mode must deliver such Bond to the Tender and Paying Agent in accordance with the procedures described herein under “Delivery and Purchase of Bonds Subject to Optional or Mandatory Tender.”

Alternate Rate for Interest Calculation

Notwithstanding the foregoing, the Bonds of either series will bear interest at the Alternate Rate during any Interest Period in which (i) the Remarketing Agent fails to determine the interest rate(s) or Interest Period(s) with respect to the Bonds of a series, or (ii) the method of determining the interest rate(s) or Interest Period(s) is held to be unenforceable by a court of law. The Alternate Rate is the rate per annum specified in the index published by Kenny Information Systems (the “Indexing Agent”) and in effect on the applicable Rate Determination Date, all as further described in the Resolution.

Auction Mode and Fixed Rate Mode

Upon compliance with certain conditions described below under “Changes in Mode,” the Bonds of a series may be converted to an Auction Mode or to a Fixed Rate Mode. If the Bonds of a series are converted to an Auction Mode or to a Fixed Rate Mode, the applicable Letter of Credit will terminate. See “Summary of Certain Provisions of the Letters of Credit—Letters of Credit.”

THIS OFFICIAL STATEMENT PROVIDES CERTAIN INFORMATION CONCERNING THE BONDS OF EACH SERIES BEFORE CONVERSION TO AN AUCTION MODE OR FIXED RATE MODE. OWNERS AND PROSPECTIVE PURCHASERS OF THE BONDS SHOULD NOT RELY ON THIS OFFICIAL STATEMENT FOR INFORMATION CONCERNING EITHER SERIES OF THE BONDS ON AND AFTER CONVERSION OF THOSE BONDS TO AN AUCTION MODE OR FIXED RATE MODE, BUT SHOULD LOOK TO THE REVISIONS, AMENDMENTS, SUPPLEMENTS, OR SUBSTITUTIONS OF THIS OFFICIAL STATEMENT FOR INFORMATION CONCERNING THE BONDS OF THE APPLICABLE SERIES ON AND AFTER SUCH CONVERSION DATE.

Changes in Mode

The interest rate mode of each series of the Bonds in the Commercial Paper Mode, the Daily Mode, the Weekly Mode, the Term Rate Mode, or the Auction Mode (the “Current Mode”) may be changed to any one of the other such Modes or to the Fixed Rate Mode at the times and in the manner provided in the Resolution. Once the Bonds of a series are converted to the Fixed Rate Mode, they may not be changed to another Mode. Mode changes in one series will not affect the other series. After a Mode Change, the Bonds of that series will bear interest at the rate or rates applicable to such new Mode (the “New Mode”). Each date on which the Current Mode terminates and the New Mode begins (the “Mode Change Date”) must be a Business Day. In addition, if the Current Mode is the Commercial Paper Mode, the Mode Change Date must be the last Purchase Date for all Interest Periods applicable to the Bonds of that series, and if the Current Mode is the Term Rate Mode, the Mode Change Date must be the Purchase Date for the then-current Interest Period.

To effect a change in Mode for either series of the Bonds, the City must give written notice of its intention to the applicable Remarketing Agent, the Bank and the Tender and Paying Agent no later than the 45th day preceding the applicable Mode Change Date (or such shorter time as may be agreed to by the City, the

Tender and Paying Agent and the applicable Remarketing Agent). In addition, on or before the 30th day preceding the Mode Change Date, the City must provide to the Tender and Paying Agent and the applicable Remarketing Agent evidence that it will be able to satisfy the conditions precedent to the change in Mode, as described below, on the Mode Change Date.

The Tender and Paying Agent must mail notice of the proposed change in Mode (a “Mode Change Notice”) to the Owners of the Bonds of the applicable series on or before the 30th day preceding the Mode Change Date. Such notice must state that each Owner is required to tender its Bonds for purchase on the Mode Change Date at the Purchase Price. The notice also must specify the procedures for tendering Bonds and state that Bonds that are not tendered will be deemed tendered and that interest will cease to accrue on those Bonds on the Mode Change Date.

No change in Mode will become effective unless the City delivers to the Tender and Paying Agent and the applicable Remarketing Agent on the Mode Change Date:

- (i) in the case of a change (a) from a Daily Mode, a Weekly Mode, a Commercial Paper Mode, or a Term Mode with an Interest Period of less than one year (each a “Short-Term Mode”) to a Term Rate Mode with an Interest Period of one year or more or a Fixed Rate Mode (each a “Long-Term Mode”), or (b) from a Long-Term Mode to a Short-Term Mode, or (c) to or from an Auction Mode, a favorable opinion of Bond Counsel dated the Mode Change Date, and
- (ii) if the New Mode is the Commercial Paper Mode or Term Rate Mode, evidence that the Interest Reserve Account is or will be funded in an amount at least equal to the Interest Reserve Account Requirement (defined below), if applicable.

In addition, if the Bonds of a series are converted to a Fixed Rate Mode or to any other Mode with Authorized Denominations of less than \$100,000 or with an Interest Period of more than nine months, the City must enter into a binding agreement on or before the Mode Change Date for the benefit of the Owners of the Bonds of that Series that complies with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission.

If fewer than all of the Bonds of a series have been remarketed or if any of the conditions precedent to the change in Mode have not been satisfied by the Mode Change Date, the New Mode will not take effect and the Bonds of that series will be (or remain) in a Weekly Mode.

Interest Reserve Account

If the Bonds of a series are changed to a Commercial Paper Mode or to the Term Rate Mode, the City will fund an account (the “Interest Reserve Account”) either with cash or by drawing upon the applicable Letter of Credit in an amount equal to 35 days’ interest on the Outstanding Bonds of the series (calculated at the rate of 12 percent and computed on the basis of a 360-day year consisting of twelve 30-day months) (the “Interest Reserve Account Requirement”). When the Bonds of a series are in the Commercial Paper Mode or Term Rate Mode, the amounts, if any, in the Interest Reserve Account will be used on each Interest Payment Date or Principal Payment Date and on any Purchase Date or Mandatory Purchase Date to pay interest due and payable on those Bonds.

Mandatory Tender of Bonds

THE PROVISIONS DESCRIBED HEREIN RELATING TO THE MANDATORY TENDER OF THE BONDS DO NOT APPLY TO THE BONDS IN AN AUCTION MODE OR AFTER CONVERSION TO A FIXED RATE MODE.

Mandatory Purchase at End of Commercial Paper Mode Interest Periods. Each Bond in the Commercial Paper Mode will be subject to mandatory purchase at the Purchase Price on the Purchase Date for the current Interest Period. NO NOTICE OF SUCH MANDATORY PURCHASE WILL BE GIVEN TO THE OWNERS. SEE “COMMERCIAL PAPER MODE” ABOVE.

Mandatory Purchase at End of Term Rate Mode Interest Period. Bonds in the Term Rate Mode are subject to mandatory purchase at the Purchase Price on the Purchase Date for the current Interest Period. Notice of

such mandatory purchase will be given to the Owners by the Tender and Paying Agent as described above under “Term Rate Mode.”

Mandatory Purchase on Any Mode Change Date. Bonds of a series to be converted to any Mode from any other Mode are subject to mandatory purchase on the Mode Change Date at the Purchase Price. Notice of such mandatory tender will be given to the Owners of the Bonds by the Tender and Paying Agent, as described above under “Changes in Mode.”

Mandatory Purchase Upon Substitution or Expiration of Letter of Credit. If a substitute Letter of Credit is to be substituted for the Letter of Credit then in effect for a series of Bonds, then the Bonds of that series are required to be tendered for purchase on the fifth Business Day before the Substitution Date (the “Substitution Tender Date”). If a Letter of Credit for the Bonds of a series is to expire or terminate on any date (the “Expiration Date”), then the Bonds of that series will be subject to mandatory purchase on the fifth Business Day before the Expiration Date (the “Expiration Tender Date”). In each case, the Tender and Paying Agent is required to give notice of the mandatory purchase to the Owners of the Bonds of the applicable series at least 15 days before the Substitution Tender Date or Expiration Tender Date, as applicable, stating:

- (i) in the case of a Substitution Tender Date, that the Letter of Credit is being replaced by a substitute Letter of Credit (specifying the Substitution Date); or
- (ii) in the case of an Expiration Tender Date, that the Letter of Credit will expire on the Expiration Date (specifying the Expiration Date); and
- (iii) in each case, that the Bonds are required to be tendered for purchase (specifying the Substitution Tender Date or Expiration Tender Date, as applicable, and the procedures for tender, and stating that Bonds not so tendered will be deemed tendered and interest thereon will cease to accrue on the Substitution Tender Date or Expiration Tender Date, as applicable).

Mandatory Purchase Upon Event of Default Under Reimbursement Agreements. Each Bond of a series is subject to mandatory purchase at the Purchase Price on the Business Day specified by the Bank in a written notice to all Notice Parties (the “Default Tender Date”) that one or more of certain specified “Events of Default,” as defined in the Reimbursement Agreement relating to such series, has occurred and is continuing. The Default Tender Date will be not more than 15 nor less than 10 days after the date such notice is received. No later than the 8th day next preceding the Default Tender Date, the Tender and Paying Agent will give notice to the Owners stating that the Bonds of that series are required to be tendered for purchase. The notice must specify the Default Tender Date and the procedures for tender and state that Bonds not so tendered will be deemed tendered and interest thereon will cease to accrue on the Default Tender Date.

Delivery and Purchase of Bonds Subject to Optional or Mandatory Tender

Delivery. Bonds of a series subject to optional or mandatory tender on any Purchase Date or Mandatory Purchase Date, as applicable, must be delivered by the Owners thereof to the Tender and Paying Agent at the following address: The Bank of New York, Corporate Trust Window, 15 Broad Street, New York NY 10005, at or before 12:00 noon on the applicable Purchase Date or Mandatory Purchase Date. However, while DTC or its nominee is the registered owner of the Bonds of a series, Bonds of that series subject to purchase on any Purchase Date or Mandatory Purchase Date must be delivered in accordance with DTC procedures as described in Appendix D—Book-Entry Transfer System.

If any Bonds to be purchased are not delivered to the Tender and Paying Agent in accordance with DTC’s standard procedures as described in Appendix D—Book-Entry Transfer System (or other applicable procedures in the event that DTC is not the depository) on the Purchase Date or Mandatory Purchase Date, as the case may be, the Tender and Paying Agent is required to hold any funds received for the purchase of such Bonds in trust in a separate non-interest bearing account to pay such funds to the former Owners of such Bonds upon presentation thereof. ANY SUCH UNDELIVERED BONDS WILL BE DEEMED TENDERED AND WILL CEASE TO ACCRUE INTEREST ON THE PURCHASE DATE OR MANDATORY PURCHASE DATE, AS THE CASE MAY BE. Any funds held by the Tender and Paying Agent for payment of any undelivered Bond which remains unclaimed by the former Owner of such Bond for a period of one year after delivery of such funds to the

Tender and Paying Agent will be paid to the City in accordance with the provisions of the Resolution, and thereafter such former Owner may look only to the City for payment thereof.

Purchase. On or before the close of business on the Purchase Date or the Mandatory Purchase Date, as the case may be, the Tender and Paying Agent will purchase Bonds from the Owners thereof at the applicable Purchase Price. Payment of the Purchase Price of any Bond purchased pursuant to optional tender will be made only if the Bond so delivered to the Tender and Paying Agent conforms in all respects to the description thereof in the notice of tender.

The Purchase Price is defined as:

- (i) an amount equal to the principal amount of any Bonds of a series purchased on any Purchase Date, plus, in the case of any purchase of Bonds of a series in the Daily Mode or the Weekly Mode on a day that is not an Interest Payment Date, accrued interest, if any, to the Purchase Date;
- (ii) an amount equal to the principal amount of any Bonds of a series purchased on a Mandatory Purchase Date, plus, in the case of any Bonds of applicable series purchased on a Substitution Tender Date, Expiration Tender Date or Default Tender Date, accrued interest, if any, to the Mandatory Purchase Date; or
- (iii) with respect to Bank Bonds, an amount equal to the principal amount of such Bank Bonds.

Payment of the Purchase Price will be made by the Tender and Paying Agent by wire transfer in immediately available funds, or, if any Owner of Bonds to be so purchased has not provided or caused to be provided wire transfer instructions, by check mailed to such Owner. However, while DTC or its nominee is the registered owner of the Bonds of a series, payment of the Purchase Price of Bonds of that series will be made in accordance with the DTC procedures as described in Appendix D – Book-Entry Transfer System.

Funds for the payment of the Purchase Price of Bonds will be derived solely from the following sources in the order of priority indicated, and neither the Tender and Paying Agent nor the Remarketing Agents will be obligated to provide funds from any other source:

- (i) immediately available funds derived from the remarketing of such Bonds;
- (ii) with respect to the interest portion, if any, of the Purchase Price of Bonds in the Commercial Paper Mode or the Term Rate Mode, immediately available funds on deposit in the Interest Reserve Account; and
- (iii) immediately available funds derived from a drawing on the Letter of Credit for such Bonds.

Redemption of Bonds

Optional Redemption in Commercial Paper Mode. Bonds in the Commercial Paper Mode are not subject to optional redemption prior to their respective Purchase Dates. Bonds in the Commercial Paper Mode are subject to redemption at the option of the City, in whole or in part, on their respective Purchase Dates at a Redemption Price equal to 100 percent of the principal amount of the Bonds being redeemed plus accrued interest, if any, to the Redemption Date.

Optional Redemption in Daily Mode or Weekly Mode. Bonds of either series in a Daily Mode or Weekly Mode will be subject to redemption at the option of the City, in whole or in part in Authorized Denominations, on any Interest Payment Date at a Redemption Price equal to 100 percent of the principal amount of the Bonds being redeemed plus accrued interest, if any, to the Redemption Date.

Optional Redemption in Term Rate or Fixed Rate Mode. Bonds of either series in the Term Rate Mode or Fixed Rate Mode are also subject to redemption at the option of the City in whole or in part in Authorized Denominations (and if in part, in such order of maturity as specified by the City) on the dates set forth below at a Redemption Price equal to 100 percent of the principal amount of the Bonds to be redeemed, plus accrued interest, if any, to the Redemption Date:

Length of Interest Period	Redemption Date
Greater than 15 years	At any time on or after the 10th anniversary of the Mode Change Date
Greater than 10 and less than or equal to 15 years	At any time on or after the 7th anniversary of the Mode Change Date
Greater than 5 and less than or equal to 10 years	At any time on or after the 3rd anniversary of the Mode Change Date
Less than or equal to 5 years	At any time on or after the 2nd anniversary of the Mode Change Date

Notice of Redemption. The Tender and Paying Agent will give notice of redemption of any Bonds to be redeemed by first class mail to the Owners of any Bonds designated for redemption, no less than 30 nor more than 60 days prior to the date fixed for redemption (the “Redemption Date”). The failure to mail such notice with respect to any Bond will not affect the validity of the proceedings for the redemption of any other Bond with respect to which notice was so mailed. The failure of an Owner to receive a notice mailed as described herein will not affect the validity of the redemption of that Owner’s Bonds. Notwithstanding the foregoing, while DTC or its nominee is the registered owner of the Bonds of a series, notice of redemption of Bonds of that series will be given in accordance with DTC procedures as described in Appendix D—Book-Entry Transfer System.

If notice of redemption has been given as described herein and money for the payment of the Redemption Price is held by the Tender and Paying Agent, then on the Redemption Date the Bonds (or portions thereof) called for redemption will cease to be Outstanding and to be entitled to any benefit, protection or security under the Ordinance and the Resolution, and the Owners of such Bonds will have no rights with respect to those Bonds except to receive payment of the Redemption Price upon delivery of those Bonds to the Tender and Paying Agent. Interest on the Bonds (or portions thereof) called for redemption will cease to accrue on the Redemption Date. Notwithstanding the foregoing, any Bank Bonds will remain Outstanding until the Bank is paid all amounts due in connection with such Bonds.

Selection of Bonds for Redemption. Whenever less than all Bonds of a single maturity of either series are to be redeemed, the Tender and Paying Agent or DTC will select the Bonds of that maturity to be redeemed by lot (or in such other manner as the Tender and Paying Agent deems appropriate), except that Bank Bonds will be redeemed first.

Open Market Purchase

The City reserves the right to purchase any of the Bonds on the open market at any time at any price acceptable to the City. Bonds so purchased by the City will not be deemed outstanding for purposes of exercising the rights of Owners under the Ordinance and the Resolution.

Transfer and Exchange

Any Bond may be transferred upon the Bond Register, by the Owner or the Owner’s attorney duly authorized in writing, upon surrender of such Bond at the Tender and Paying Agent at the following address: The Bank of New York, Corporate Trust Window, 15 Broad Street, New York NY 10005, accompanied by a written instrument of transfer. Any Bond may be exchanged for a like aggregate principal amount of Bonds at the same office of the Tender and Paying Agent. Transfer or exchange is subject to payment, by the Owner requesting such transfer or exchange, of any tax or other governmental charge required to be paid with respect to such transfer or exchange.

Refunding or Defeasance of Bonds

The City may issue refunding bonds or use money available from any other lawful source to redeem and retire, release, refund, or defease the Bonds or any portion thereof (the “Defeased Bonds”). If sufficient money and/or Government Obligations, taking into account known earned income from the investment thereof, are set aside in a special fund pledged to the redemption, retirement or defeasance of the Defeased Bonds (the “Trust Account”), then all right and interest of the owners of the Defeased Bonds in the pledges and covenants of the Ordinance and the Resolution and in the revenues and the funds and accounts pledged to the payment of the Defeased Bonds will cease and become void. Such owners thereafter will receive payment of the principal of and interest or redemption price on the Defeased Bonds from the Trust Account. See Appendix A—Ordinance.

Book-Entry Transfer System

Book-Entry Bonds. DTC will act as initial securities depository for the Bonds. The ownership of one fully registered Bond of each series will be registered in the name of Cede and Co., as nominee for DTC. See Appendix D for additional information. *As indicated therein, certain information in Appendix D has been provided by DTC. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds should confirm its contents with DTC or its participants.*

Termination of Book-Entry Transfer System. If DTC resigns as the securities depository for the Bonds of a series and the City is unable to retain a qualified successor to DTC or if the City determines that a continuation of the book-entry transfer system is not in the best interest of the City, the City will deliver at no cost to the beneficial owners of the Bonds of that series or their nominees Bonds in registered certificate form, in Authorized Denominations. Thereafter, the principal of the Bonds of that series will be payable upon due presentment and surrender thereof at the principal office of the Tender and Paying Agent. Interest on the Bonds of that series will be payable as provided in the Resolution.

USE OF PROCEEDS

The proceeds of the Bonds will provide funds for certain capital improvements and additions to, and conservation programs for, the Water System (the “Plan of Additions”) and to pay the issuance costs of the Bonds.

Sources and Uses of Funds

The proceeds of the Bonds (less accrued interest) will be applied as follows:

<u>Sources of Funds</u>	
Par Amount of Bonds	\$ 65,000,000
Total Sources of Funds	<u>\$ 65,000,000</u>
 <u>Uses of Funds</u>	
Project Fund Deposit	\$ 64,675,000
Estimated Underwriter’s Discount and Costs of Issuance	<u>325,000</u>
Total Uses of Funds	<u>\$ 65,000,000</u>

SECURITY FOR THE BONDS

Pledge of Net Revenue

The Bonds are special limited obligations of the City payable and secured solely by the Net Revenue of the Water System and all money and investments held in the Bond Account, the Rate Stabilization Account and the Construction Account (except money and investments held in a separate fund or account for the purpose of compliance with rebate requirements under the Internal Revenue Code of 1986, as amended (the “Code”)). This pledge constitutes a lien and charge upon the Net Revenue on a parity with the lien of the Parity Bonds (defined below) and subordinate to the lien on Net Revenue of the Prior Lien Bonds. See Appendix A—Ordinance.

THE BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE CITY, THE STATE OF WASHINGTON (THE “STATE”) OR ANY POLITICAL SUBDIVISION OF THE STATE, OR A CHARGE UPON ANY GENERAL FUND OR UPON ANY MONEY OR OTHER PROPERTY OF THE CITY OR THE STATE, OR OF ANY POLITICAL SUBDIVISION OF THE STATE, NOT SPECIFICALLY PLEDGED THERETO BY THE ORDINANCE. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, NOR ANY REVENUE OF THE CITY DERIVED FROM ANY SOURCES OTHER THAN THE WATER SYSTEM ARE PLEDGED TO THE PAYMENT OF THE BONDS.

A special account known as the Second Lien Water Revenue Bond Account (the “Bond Account”) has been created in the Water Fund for the sole purpose of paying the principal of and interest on the Bonds, the 1995 Bonds and any additional revenue bonds and other obligations, the payment of which constitutes a charge and lien on the Net Revenue of the Water System equal in rank with the charge and lien upon such revenue of the Bonds (the “Future Parity Bonds” and, collectively with the Bonds and the 1995 Bonds, the “Parity Bonds”). The City has agreed to pay into the Bond Account on or prior to the respective dates on which principal and interest are payable, all pledged assessments of utility local improvement districts (“ULID”) and certain fixed amounts from the Net Revenue of the Water System sufficient to pay such principal and interest when due. See Appendix A—Ordinance.

Letters of Credit

The Bank will deliver to the Tender and Paying Agent for the benefit of the Owners of the Bonds an irrevocable, direct pay letter of credit for each series of the Bonds (the “Letters of Credit”), each issued in an amount equal to \$33,193,334, of which (i) \$32,500,000 will be available to pay principal of the applicable series of the Bonds either at maturity or upon redemption thereof, or to pay the portion of the purchase price representing the principal amount of those Bonds tendered for purchase pursuant to the Resolution, and (ii) \$693,334 (64 days of interest on the principal amount of Bonds calculated at the rate of 12 percent and computed on the basis of a 360-day year consisting of twelve 30-day months), will be available to pay interest on the applicable series of the Bonds as interest becomes due, or to pay the portion of the purchase price of those Bonds representing the accrued interest thereon, or to fund the Interest Reserve Account.

See “Summary of Certain Provisions of the Letters of Credit.”

No Reserve Account

There is no reserve account securing repayment of the Bonds. The reserve account for the Prior Lien Bonds is not available to pay debt service on the Parity Bonds.

Additional Obligations

Future Prior Lien Bonds. The City has reserved the right to issue additional bonds and other obligations, including Payment Agreements, ranking on a parity of lien on the Net Revenue with the Prior Lien Bonds subject to the requirements for their issuance under the ordinances authorizing the issuance of Prior Lien Bonds. Upon conversion of the Bonds of a series to Fixed Rates, those Bonds may be converted to Prior Lien Bonds upon compliance with such conditions.

Future Parity Bonds. The City has reserved the right to issue additional revenue bonds and other obligations of the City (“Future Parity Bonds”) with a charge and lien on the Net Revenue on a parity with the charge

and lien upon the Net Revenue of the Parity Bonds under the conditions set forth in the Ordinance. Among other conditions, the City must have on file at the time of the issuance of the Future Parity Bonds:

- (i) a certificate of the Director of Finance stating that Adjusted Net Revenue in any 12 consecutive months out of the immediately preceding 24 months was at least equal to the Coverage Requirement (defined below) for all Parity Bonds plus the Future Parity Bonds proposed to be issued, or
- (ii) a certificate of both the Director of Finance and the Superintendent of the Water System that in their opinion Adjusted Net Revenue (further adjusted for certain rate changes and new revenue sources) for the five fiscal years following the earlier of (1) the end of the period during which interest on the Future Parity Bonds is to be capitalized, or, if no interest is capitalized, the fiscal year in which the Future Parity Bonds are issued, or (2) the date on which the operation of substantially all of the new facilities financed by the Future Parity Bonds is expected to begin, is at least equal to the Coverage Requirement.

See Appendix A—Ordinance.

Future Subordinate Lien Bonds. The City has reserved the right to issue revenue bonds or other obligations having a lien on the Net Revenue of the Water System subordinate to the lien thereon of the Parity Bonds.

Parity Payment Agreements. The City may enter into a Payment Agreement secured by a pledge and lien on Net Revenue on a parity with the Parity Bonds subject to the satisfaction of the requirements for the issuance of Future Parity Bonds. See “Future Parity Bonds” and Appendix A—Ordinance.

Contract Resource Obligations. At any time the City may enter into Contract Resource Obligations with a separate system of the City or another person or entity to make payments for the acquisition, from facilities yet to be constructed, of water supply, transmission or other commodity or service and treat all payments (including payments prior to the time such supply or service is being provided or during a termination or suspension) under that Contract Resource Obligation as Operation and Maintenance Expenses of the Water System, upon compliance with certain requirements of the Ordinance. See Appendix A—Ordinance.

Rate Covenant for Parity Bonds

The City has covenanted in the Ordinance to establish, maintain and collect rates and charges for water service which will produce Adjusted Net Revenue of the Water System in each fiscal year that will be at least equal to 1.25 times the Adjusted Annual Debt Service (the “Coverage Requirement”). Failure to comply with this covenant will not be an Event of Default as defined in the Ordinance if the City promptly retains an Independent Consulting Engineer to recommend adjustments in the Water System rates and the City Council adopts the recommended modifications within 180 days of when the failure became known to the City Council. See Appendix A—Ordinance.

Rate Stabilization Account. The City may deposit into the Rate Stabilization Account Gross Revenue and other money and may withdraw money from that account for inclusion in the Adjusted Gross Revenue for any fiscal year of the Water System. No deposit of Gross Revenue will be made into the Rate Stabilization Account to the extent that such deposit would prevent the City from meeting the Coverage Requirement. The balance of the Rate Stabilization Account as of December 31, 2001, was \$3,000,000. See Appendix A—Ordinance.

Other Covenants

The City has entered into other covenants, including those with respect to maintenance of the Water System, sale of the Water System and preservation of tax exemption for interest on the Bonds. See Appendix A—Ordinance.

Separate Utility Systems

The City may create, acquire, construct, finance, own, and operate one or more additional systems for water supply, transmission or other commodity or service. The revenue of that separate utility system will not be

included in the Gross Revenue of the Water System and may be pledged to the payment of revenue obligations issued to acquire the separate system. Neither the Gross Revenue nor Net Revenue of the Water System will be pledged by the City to the payment of any obligations of a separate utility system except as a Contract Resource Obligation upon compliance with the Ordinance and/or with a lien on the Net Revenue subordinate to that of the Prior Lien Bonds and the Parity Bonds. See Appendix A—Ordinance.

Combined Utility Systems

The City has reserved the right to combine the Water System with other City utility systems upon the maturity, redemption or defeasance of all of the then outstanding 1995 Bonds. See Appendix A—Ordinance.

SUMMARY OF CERTAIN PROVISIONS OF THE LETTERS OF CREDIT

Letters of Credit

THE FOLLOWING INFORMATION APPLIES TO THE LETTER OF CREDIT SECURING THE SERIES A BONDS AND THE SEPARATE LETTER OF CREDIT SECURING THE SERIES B BONDS.

Concurrently with the issuance of the Bonds, the Bank will deliver to the Tender and Paying Agent an irrevocable, direct pay letter of credit for each series of the Bonds (each, a “Letter of Credit”) for the benefit of the Owners of the Bonds, each in an amount equal to \$33,193,334, of which:

- (i) \$32,500,000 is available to pay principal of the Bonds of that series either at maturity or upon redemption thereof or to pay the purchase price of Bonds of that series representing the principal amount thereof, and
- (ii) \$693,334 (64 days of interest on the principal amount of Bonds of that series calculated at the rate of 12 percent and computed on the basis of a 360-day year) will be available to pay interest on the Bonds of that series as the interest becomes due or to pay the portion of the purchase price of Bonds of that series representing the accrued interest thereon or to fund the Interest Reserve Account as defined in the Resolution.

Under the Letters of Credit, funds are available to the Tender and Paying Agent to pay principal of and interest on the Bonds on each Principal or Interest Payment Date and each Redemption Date, to pay the Purchase Price of the Bonds paid in connection with an Optional Tender or Mandatory Tender and to fund the Interest Reserve Account.

Term. Each Letter of Credit will automatically expire at the close of business on the earliest of:

- (i) May 15, 2007, unless extended at the sole option of the Bank upon the written request of the City to the Bank;
- (ii) the date on which the Tender and Paying Agent provides a termination certificate to the Bank as provided in the Letter of Credit, together with the Letter of Credit, stating that (a) no Bonds of the series applicable to such Letter of Credit remaining Outstanding, (b) a conversion of the interest rate borne by the Bonds of the series applicable to such Letter of Credit to a Fixed Rate or Auction Mode has occurred, or (c) delivery of a substitute Letter of Credit to the Tender and Paying Agent has occurred; or
- (iii) twenty days after the Tender and Paying Agent has received notice from the Bank (a) stating that an Event of Default has occurred under the applicable Reimbursement Agreement, and (b) requesting that the Bonds of the series applicable to such Letter of Credit be called for mandatory purchase pursuant to the Resolution.

Reimbursement Agreements

Reimbursement of Drawings. All amounts drawn upon a Letter of Credit to pay the principal of the Bonds of the applicable series at maturity or upon redemption, to pay interest on the Bonds or to fund the Interest Reserve Account are payable by the City to the Bank on the day on which such drawing is paid by the Bank.

The City is obligated to repay to the Bank amounts drawn under the applicable Letter of Credit to pay the portion of the Purchase Price of Bonds representing the principal thereof on the first Business Day of each December, March, June, and September in amounts sufficient, with interest as provided in each Reimbursement Agreement, to amortize amounts so drawn with approximately equal principal payments over a term commencing on the date such amounts are drawn and ending on the earlier of:

- (i) the date which is the first anniversary of the date on which the applicable Letter of Credit expires,
- (ii) the date which is the fifth anniversary of the date of such drawing, and
- (iii) the date which is the seventh anniversary of the later of (a) the date of issuance of the applicable Letter of Credit, and (b) the last day on which the applicable Letter of Credit is extended pursuant to the Reimbursement Agreement.

Upon the remarketing or placement of the Bonds purchased with such amounts, the amount owed to the Bank with respect to such drawings will be paid to the Bank immediately. Amounts owed to the Bank with respect to such drawings will be due and payable in full on the date of delivery of a substitute Letter of Credit to the Tender and Paying Agent.

Fees and Covenants. Under the Reimbursement Agreements, the City agrees to pay certain fees to the Bank, and the Reimbursement Agreements contain certain customary representations by the City as well as both affirmative and negative covenants binding on the City, including, without limitation, covenants to report certain information, and a covenant not to amend certain documents (including but not limited to the Ordinance and Resolution) without the Bank's consent.

Events of Default. Each of the following events constitutes an "Event of Default" under the Reimbursement Agreements, unless waived by the Bank in writing:

- (i) failure of the City to pay when due under the applicable Reimbursement Agreement any amount drawn on the applicable Letter of Credit, which failure continues for three Business Days following delivery of written notice to the City by the Bank; or failure of the City to pay when due any other amount payable under the applicable Reimbursement Agreement which failure continues for 30 days following delivery of written notice to the City by the Bank;
- (ii) failure of the City to observe or perform certain covenants, conditions or provisions of the Reimbursement Agreements, Ordinance and the Prior Lien Bond Ordinance and, in certain instances, the expiration of certain grace periods;
- (iii) any representation, warranty, certification, or statement made by the City in the Reimbursement Agreements or in any certificate furnished by the City or in any opinion rendered to the Bank by the City Attorney pursuant to the Reimbursement Agreements proves to have been untrue or incorrect in any material respect when made or rendered;
- (iv) the occurrence and continuation of an Event of Default under any of the Letters of Credit, the Ordinance, the Resolution, the Remarketing Agreements, the Tender and Paying Agent Agreements, or the applicable Bonds (the foregoing being referred to in the Reimbursement Agreements as the "Related Documents"), or under the Prior Lien Bond Ordinance, any Parity Bond Authorizing Ordinance or Parity Payment Agreement (each as defined in the Prior Lien Bond Ordinance), or under any Parity Bond Authorizing Ordinance or Parity Payment Agreement (each as defined in the Bond Ordinance), in all cases as Event of Default is defined in each such document;
- (v) failure of the City to secure its payment obligations under the Reimbursement Agreements with a lien on Net Revenue which is subordinate only to the lien on Net Revenue securing the Prior Lien Bonds;
- (vi) entry or filing of any judgment, writ or warrant of attachment or of any similar process in an amount in excess of \$5,000,000 against the Water System or against any of its property, and failure of the City to vacate, bond, stay, or contest such judgment, writ or warrant of attachment or other process or satisfy such judgment within the applicable time period specified by law;

- (vii) admission by the City of insolvency or bankruptcy or its inability or failure generally to pay its debts as they become due, or the City makes an assignment for the benefit of creditors or applies for or consents to the appointment of a trustee, custodian or receiver for the City, or for a major part of its property;
- (viii) institution of bankruptcy, reorganization, arrangement, insolvency, or liquidation proceedings, or any other proceedings for relief under any bankruptcy law or similar law for the relief of debtors, by the City (other than bankruptcy proceedings instituted by the City against third parties);
- (ix) the Reimbursement Agreements or any of the Related Documents cease to be valid or binding on the City; or the Reimbursement Agreements or any of the Related Documents are declared null and void, or the validity or enforceability thereof is contested by the City, or the City denies it has any further liability under the Reimbursement Agreements or any of the Related Documents; or
- (x) the Internal Revenue Service declares or rules that interest payable on the applicable Bonds will be includable in (or not excludable from) gross income for federal income tax purposes.

Rights and Remedies. Upon the occurrence and continuation of an Event of Default, the Bank, in its sole discretion:

- (i) may deliver to the Tender and Paying Agent written notice that an Event of Default has occurred under the applicable Reimbursement Agreement and that the applicable Letter of Credit will terminate 20 days after receipt of such notice, together with a written request that the Tender and Paying Agent immediately call the applicable Bonds for mandatory purchase pursuant to the Resolution;
- (ii) may cure any default, Event of Default or event of nonperformance under the Reimbursement Agreements or under any of the Related Documents (in which event the City will reimburse the Bank therefor); or
- (iii) may exercise any other rights or remedies available under any Related Document, any other agreement or at law or in equity.

If the Event of Default is the failure of the City to reimburse the Bank for amounts drawn under the Letter of Credit to pay interest on the Bonds or to fund the Interest Reserve Account, the Bank may, no later than the tenth day following such drawing, deliver to the Tender and Paying Agent notice:

- (i) stating that an Event of Default has occurred under the applicable Reimbursement Agreement, that the Interest Portion of the applicable Letter of Credit will not be reinstated and that the applicable Letter of Credit will terminate within 20 days after the Tender and Paying Agent has received such notice, and
- (ii) requesting that the Tender and Paying Agent immediately call the applicable Bonds for mandatory purchase pursuant to the Resolution.

The Bank does not have the right to accelerate amounts due and payable under the Reimbursement Agreements upon the occurrence of any Event of Default.

The Bank

The following information has been provided by Bayerische Landesbank Girozentrale. The City makes no representation as to the accuracy or completeness thereof.

Bayerische Landesbank Girozentrale (the “Bank”) was incorporated as a public law financial institution (Rechtsfähige Anstalt des Öffentlichen Rechts) by the Law Establishing Bayerische Landesbank Girozentrale (Gesetz ueber die Errichtung der Bayerischen Landesbank Girozentrale) of June 27, 1972, as amended, as adopted by the Parliament of the Free State of Bavaria, and is subject to the German Federal Banking Act of July 10, 1961, as amended (Gesetz ueber das Kreditwesen) (the “Federal Banking Act”). Its statutes authorize the Bank to provide universal financial services including both commercial and investment banking as well as brokerage activities. The Free State of Bavaria owns 50 percent of the Bank’s share capital,

the other 50 percent being owned by the Bavarian Savings Bank and Clearing Association (Bayerischer Sparkassen-und Giroverband) (which is the central organization of the Bavarian Savings Banks).

The Bank is equipped to provide a full range of domestic and international banking services; with regard to local banking functions, the Bank also makes use of the Bavarian Savings Bank's network. In the domestic field, the Bank places emphasis on wholesale banking, lending to federal and local authorities and mortgage lending, together with industrial credit. The Bank holds the function of a banker of the Free State of Bavaria and its municipalities, and also finances public and private development projects, administers public funds and performs certain treasury functions for the Free State of Bavaria.

The Free State of Bavaria and the Bavarian Savings Bank and Clearing Association are jointly and severally liable for the obligations of the Bank if the liabilities cannot be satisfied from the Bank's assets (Gewährtraeger). The owners of the Bank also have an obligation to maintain the Bank in a financial position which enables it to carry out its functions. This liability (Anstaltslast), which is peculiar to German law, obliges the owners to provide funds for the Bank that are necessary to enable it to fulfill its functions, to meet its liabilities and to keep its finances sound. As an additional safeguard, it is noted that as a public law institution the Bank can only be put into liquidation through a specific law to this effect.

The Bank established a Representative Office in New York in October 1979 and obtained a license from the office of the Comptroller of the Currency in October 1981 to operate through a branch located in the City of New York.

The New York Branch engages in a diversified banking business, and is a major wholesale lending participant throughout the United States, offering a full range of domestic and international financial services, including loans, foreign exchange and money market operations.

All banking institutions in the Federal Republic of Germany are subject to governmental supervision and regulation exercised by the Federal Banking Supervisory Authority (Bundesaufsichtsamt fuer das Kreditwesen), an independent federal authority with regulatory powers and by the Deutsche Bundesbank (the "German Federal Central Bank") in accordance with the Federal Banking Act. The Federal Banking Act contains major rules for banking supervision and regulates the Bank's business activities, capital adequacy and liquidity. In addition to the above-mentioned general banking supervision, the group of Landesbanks is subject to special supervision by their respective federal states.

As reported in the Bank's Annual Report for the Fiscal Year ended December 31, 2000, the Bank had total assets of EURO ("EUR") 285.5 billion (EUR 305.0 billion on a consolidated basis). Business volume (balance sheet total, own drawings charged to borrowers, endorsement liabilities, and guarantees) expanded by 8.9 percent to EUR 304.3 billion from the previous year end. The Bank's consolidated lending volume increased by EUR 9.3 billion to EUR 203.2 billion from year end 1999. Total equity of the Bank, including, among other items, nominal capital of EUR 0.97 billion, profits participation rights with a nominal value of EUR 2.57 billion and capital contributions of silent partners in an amount of EUR 2.75 billion, totaled EUR 10.3 billion or 3.6 percent of the unconsolidated balance sheet. Net income after tax amounted to EUR 493.0 million, an increase of 7.8 percent compared to year end 1999. EUR 425 million of such amount has been allocated to revenue reserves, raising the Bank's published reserve to EUR 3.91 billion. The accounting principles applied in the preparation of the Bank's financial statements comply with generally accepted accounting principles in the Federal Republic of Germany and may not conform to generally accepted accounting principles applied by United States banks.

The rate of exchange between the EUR and the dollar is determined by the forces of supply and demand in the foreign exchange markets, which, in turn, are affected by changes in the balance of payments and other economic and financial conditions, government intervention, speculation and other factors. The foregoing information relating to the Bank is based upon facts and circumstances present on the dates referenced above. Such facts and circumstances may change from time to time. The Bank shall have no obligation to update the foregoing information to reflect any such change.

Copies of the Bank's Annual Report for the most recent available fiscal year may be obtained at the New York Branch in person during normal business hours or by mail by writing to the New York Branch at: Bayerische Landesbank Girozentrale, 560 Lexington Avenue, New York, New York 10022, Attention: Corporate Finance.

The Bank has supplied the information relating to it in the previous paragraphs. The Bank does not accept responsibility for any information contained in this Official Statement other than the information contained in this section relating to the Bank.

Replacement of the Bank

The Bank may be replaced at any time at the option of the City with a substitute Letter of Credit in accordance with the Resolution. See "Description of the Bonds—Mandatory Tender of Bonds."

DEBT SERVICE REQUIREMENTS

The following table shows the debt service to be paid from the Net Revenue of the Water System. In addition to the obligations shown below, the Water System has an outstanding balance of \$1,418,601 in a Public Works Trust Fund loan with annual debt service payments of approximately \$122,000, which are subordinate in lien to the Bonds and the Prior Lien Bonds.

DEBT SERVICE REQUIREMENTS

Date	PARITY BONDS					PRIOR LIEN	Total Debt Service
	1995 Bonds		The Bonds		Total	BONDS	
	Principal	Interest*	Principal	Interest*		Total	
2002	\$ 1,100,000	\$ 1,705,000	\$ 0	\$ 1,668,333	\$ 4,473,333	\$ 47,116,045	\$ 51,589,378
2003	1,100,000	1,661,000	0	2,600,000	5,361,000	47,126,205	52,487,205
2004	1,200,000	1,616,000	0	2,600,000	5,416,000	47,067,311	52,483,311
2005	1,200,000	1,568,000	0	2,600,000	5,368,000	43,035,521	48,403,521
2006	1,300,000	1,519,000	0	2,600,000	5,419,000	41,934,756	47,353,756
2007	1,300,000	1,467,000	0	2,600,000	5,367,000	38,904,963	44,271,962
2008	1,400,000	1,414,000	0	2,600,000	5,414,000	39,151,339	44,565,339
2009	1,400,000	1,358,000	0	2,600,000	5,358,000	39,114,246	44,472,246
2010	1,500,000	1,301,000	0	2,600,000	5,401,000	39,085,796	44,486,796
2011	1,600,000	1,240,000	0	2,600,000	5,440,000	39,056,634	44,496,634
2012	1,600,000	1,176,000	0	2,600,000	5,376,000	39,032,340	44,408,340
2013	1,700,000	1,111,000	0	2,600,000	5,411,000	39,017,965	44,428,965
2014	1,800,000	1,042,000	0	2,600,000	5,442,000	39,000,064	44,442,064
2015	1,800,000	970,000	0	2,600,000	5,370,000	38,992,316	44,362,316
2016	1,900,000	897,000	0	2,600,000	5,397,000	38,976,580	44,373,580
2017	2,000,000	820,000	0	2,600,000	5,420,000	38,940,458	44,360,458
2018	2,100,000	739,000	0	2,600,000	5,439,000	38,925,688	44,364,687
2019	2,200,000	654,000	0	2,600,000	5,454,000	38,948,869	44,402,869
2020	2,200,000	566,000	0	2,600,000	5,366,000	39,055,063	44,421,063
2021	2,300,000	477,000	0	2,600,000	5,377,000	37,321,306	42,698,306
2022	2,400,000	384,000	0	2,600,000	5,384,000	37,434,056	42,818,056
2023	2,500,000	287,000	0	2,600,000	5,387,000	37,200,875	42,587,875
2024	2,600,000	186,000	0	2,600,000	5,386,000	26,985,325	32,371,325
2025	2,700,000	81,000	0	2,600,000	5,381,000	26,986,009	32,367,009
2026	0	0	0	2,600,000	2,600,000	26,992,178	29,592,178
2027	0	0	0	2,600,000	2,600,000	23,362,903	25,962,903
2028	0	0	0	2,600,000	2,600,000	17,949,366	20,549,366
2029	0	0	0	2,600,000	2,600,000	17,945,528	20,545,528
2030	0	0	0	2,600,000	2,600,000	3,566,750	6,166,750
2031	0	0	0	2,600,000	2,600,000	3,570,000	6,170,000
2032	0	0	65,000,000	650,000	65,650,000	0	65,650,000
	\$ 42,900,000	\$ 24,239,000	\$ 65,000,000	\$ 77,718,333	\$ 209,857,333	\$ 1,031,796,455	\$ 1,241,653,788

* Assumed interest rate of 4 percent.

SEATTLE PUBLIC UTILITIES

Administrative Structure

Seattle's water, drainage, wastewater, and solid waste utility services were consolidated administratively into a single entity known as Seattle Public Utilities ("SPU") in 1997. Within SPU, there are four separate funds: the Water Fund, the Drainage and Wastewater Fund, the Solid Waste Fund, and the Engineering Services Fund. The City has reserved the right to combine the Water Fund with other City utility funds upon the maturity, redemption or defeasance of all of the then-outstanding 1993 Bonds and 1995 Bonds.

Management

SPU consists of the Director's Office and five Executive Branches: the Finance and Administration Branch, the Customer Service Branch, the Resource Planning Branch, the Engineering Services Branch, and the Field Operations Branch. The Director administers SPU in accordance with policies established by the Mayor of Seattle (the "Mayor") and the City Council. Brief biographies of the members of SPU's Executive Management Team follow.

Chuck Clarke, Director. Mr. Clarke became Director of SPU in January 2002. Prior to this appointment, he served as deputy mayor for the City, responsible for issues and projects dealing with utilities, transportation and the environment. He is the former Regional Administrator for the Environmental Protection Agency. He holds a bachelor's degree in biology and a master's degree in business administration from Pacific Lutheran University.

Nick Pealy, Finance and Administration Branch Executive. Mr. Pealy joined SPU in 1997 as Director of Finance and was promoted to his current position in 2001. He has worked for the City since 1987 as an economist for the City Council and as a rates supervisor and finance director for the Solid Waste Utility. He holds a bachelor's degree in political science and mathematics from Whitman College and a master's degree in economics from the University of Washington.

Patricia Colson, Customer Service Branch Executive. Ms. Colson has served as Branch Executive of Customer Service of SPU since it was created in 1997. Prior to her appointment she served as the Water Department's Account Services Director. Ms. Colson holds a bachelor's degree in education and social science from the University of Puget Sound and a master's degree in education from the University of Washington.

Nancy Ahern, Resource Planning Branch Executive. Ms. Ahern was appointed to this position in 2001. Prior to the appointment she was manager of the Water and Land Resources Division for King County. Ms. Ahern holds a bachelor's degree in biology and environmental studies from Principia College and a Ph. D. degree in natural resource management from the University of Michigan.

Thomas J. Tanner, Engineering Services Branch Executive. Mr. Tanner was appointed Engineering Services Branch Executive in 1998, and oversees engineering, design, project management, and construction management for SPU, as well as construction contractor management functions for Seattle City Light and the Seattle Transportation Department. Mr. Tanner holds a bachelor's degree in civil engineering from California State University and a master's degree in public works management from the University of Pittsburgh. He is a graduate of Northwestern University's Executive Management Program and is a registered professional civil engineer.

Scott Haskins, Field Operations Branch Executive. Mr. Haskins became Branch Executive of Field Operations in 2001. Prior to that appointment he had served as Resource Management Branch Executive and as the Deputy Superintendent of the Water Department (now the Water System). He is the past president of the Seattle Management Association and Chair of the West Coast Water Utilities Benchmarking Group. He holds a bachelor's degree in political science and a master's degree in public administration from the University of Washington.

Employee Relations

SPU has approximately 1,200 employees, almost all of whom are members of the City's Employee Retirement System. The Retirement System requires SPU, like all City departments, to make contributions equal to an actuarially determined percentage of covered payrolls. See "The City of Seattle—Pension System." Approximately 75 percent of SPU employees are represented by five unions. SPU believes that labor relations are satisfactory. See "The City of Seattle—Labor Relations."

WATER SYSTEM

General

The Water System was established in 1890. It currently includes two watershed sources of supply east of the City and a small aquifer south of the City, as well as approximately 156 miles of supply mains and 460 million gallons ("MG") of storage capacity in transmission and distribution reservoirs. The Water System's service area includes Seattle and portions of unincorporated King County served directly (the "direct service area"), and also areas served by 27 suburban water districts, municipalities and non-profit water associations (the "Purveyors") in the County. The population of the Water System's direct service area is approximately 624,000, and the population of the area indirectly served through the Purveyors is approximately 703,000. The map on the inside front cover shows the direct service area and the locations of the Purveyors. Summary statistics for the Water System follow.

WATER SYSTEM OPERATING STATISTICS

	1997	1998	1999	2000	2001
Population Served					
Direct Service	603,861	608,947	614,076	619,247	624,463
Purveyors	674,180	682,592	689,465	696,338	703,279
Total Population Served	1,278,041	1,291,539	1,303,541	1,315,585	1,327,742
Water Sales Revenues (\$000)					
Direct Service	50,448	55,659	58,267	71,060	72,891
Purveyors	20,248	25,843	27,114	33,121	30,936
Total Water Sales Revenues	70,696	81,502	85,381	104,181	103,827
Billed Water Use (MG)					
Direct Service	25,261	25,987	24,680	25,119	22,683
Purveyors	23,540	24,792	24,053	24,303	22,229
Total Billed Water Use*	48,801	50,779	48,733	49,422	44,912
Operating Costs per MG (\$)	1,150	1,376	1,516	1,484	1,923
Gallons Used per Day per Capita	105	108	102	103	93
Direct Service Meters in Use	175,297	175,888	176,513	177,468	178,122
Number of New Water Services Installed	310	591	625	955	654

* Total billed water use was below normal in 2001 because of voluntary curtailments by customers during the drought.

Source: Seattle Public Utilities

Comprehensive Planning

The Seattle Comprehensive Water System Plan (the “Water Plan”) is the 20-year comprehensive plan for the Water System. The most recent Water Plan was approved by the State Department of Health (“DOH”) in April 2001. The Water Plan provides guidance for planning and operating the Water System, and includes objectives for the next six years in the areas of water quality, maintenance and rehabilitation, water conservation and water supply.

Water Supply

The Water System’s two surface water supply diversions are located on the Cedar River and on the South Fork of the Tolt River, each approximately 25 miles east of Seattle. The watershed areas upstream of the water supply intakes on these two rivers consist of a total of approximately 104,000 acres of forest land in the Cascade Mountains of western Washington. Rainfall in the watersheds averages in excess of 100 inches annually. The snow pack at higher elevations averages five feet per year. Raw water storage capacity is 84,000 acre feet in the Cedar River Watershed and 56,000 acre feet in the Tolt River Watershed.

The City has diverted water from the Cedar River for use by the Water System since 1902. The City acquired this right by purchase, riparian right, appropriation, and other applicable laws. This claim of water rights, its relationship to instream flow requirements and the effect of the City’s diversion dam in blocking passage of anadromous fish all have been the subject of intermittent discussions among the City, the State and the Muckleshoot Indian Tribe.

The City’s water rights on the South Fork of the Tolt River were established by permits for water storage and water diversion granted by the State in 1957, with a priority date of July 14, 1936. These water rights remain in permit status. In 1989, the Federal Energy Regulatory Commission granted a license to Seattle City Light to build a hydroelectric power plant on the South Fork of the Tolt River, resulting in modifications to the terms of the original water permits. The project was completed in 1996, and in 1997, Seattle City Light

documented the full beneficial use of the water needed for the hydropower plant and received a certificate of water right.

On an aquifer located south of Seattle and immediately north of the Seattle-Tacoma International Airport, the City has developed three supply wells with a combined capacity of 10 million gallons per day (“MGD”) to augment the City’s surface water supply. The feasibility of recharging the aquifer with surplus winter-spring flows from the Cedar River has been tested successfully. The wells are operated under temporary permits from the State of Washington Department of Ecology (“DOE”). The City has applied for permits which can be converted into water rights. DOE currently is in the process of finalizing a Report of Examination on the application, the step prior to issuing a permit.

In addition to the surface water supply diversions and the aquifer, the City has two barge-mounted pumping plants on Chester Morse Lake for use in the event of droughts. Each plant has the capacity to pump up to 120 MGD of high quality water from below the lowest natural outlet of the lake.

The administration of water rights in Washington is a matter of ongoing development and debate in the State Legislature and the courts.

Future Water Supply and Conservation

At present, SPU has adequate supply resources to meet Water System demands under a wide range of weather conditions. Existing sources of supply owned by the City provide an average annual firm yield of 171 MGD, an increase from 160 MGD in 2001 due to the completion of a new filtration plant on the Tolt River, which removes some of the restriction on reservoir drawdowns. Demand in the service area averaged 148 MGD in 2000 and 135 MGD in the drought year of 2001. Providing sufficient water during the summer, when demand is 40 percent higher than during the winter, is the major challenge, as the Water System depends on seasonal storage to meet that demand.

Current forecasts of demand and supply suggest that a new primary source of supply will not be needed until sometime after 2020. While population growth in SPU’s water service area is forecast to exceed one percent per year, water demand is expected to increase much more slowly due to conservation. Over the past decade, conservation has been encouraged through higher marginal rates in the summer peak season, aggressive water conservation programs, new state plumbing codes specifying efficiency standards for water fixtures, and improved system operations. As a result, annual average consumption declined from 170 MGD in 1990 to 135 MGD in 2001. In addition, the One Percent Conservation Program initiated in 1999 is expected to offset population growth and keep demand flat for at least the next ten years. See “Capital Improvement Program.” In September 2001, during a citizens’ initiative campaign, the City enacted a more aggressive conservation program designed to reduce the aggregate level of demand for water by 12 MGD by 2010 and established a water trust program to benefit the environment. The initiative did not appear on the ballot.

SPU is actively engaged in the evaluation of new sources of supply and conservation programs to meet the projected growth within the existing service area, to provide a hedge against potential reduction of water diversions to support environmental and related objectives and to serve water agencies within the region that are not Purveyors currently but might be added to the Water System. In addition to new conservation programs, additional water resources have been identified, including:

- (i) joint development with the City of Tacoma and three other utilities of the Second Supply Project (the “Tacoma SSP”),
- (ii) development of the Snoqualmie River Valley/North Bend Aquifer,
- (iii) installation of a permanent pumping plant at Chester Morse Lake,
- (iv) drawdown of Lake Youngs (which stores treated water from the Cedar River) for water supply,
- (v) additional drawdowns of the reservoir on the South Fork of the Tolt River, and
- (vi) development of a new source of supply at the North Fork of the Tolt River.

The Tacoma SSP would connect the water transmission systems of Seattle, Tacoma and certain south King County utilities and would provide additional water to Tacoma and the other participants in the project. Under the proposed project agreement among Seattle, Tacoma, the City of Kent, the Covington Water District, and the Lakehaven Utility District, the project would be developed and operated by the Water Division of the City of Tacoma's Department of Public Utilities. The total project cost is estimated at \$250 million; SPU would pay one-third of the project cost in exchange for approximately one-third of the capacity of the project, or approximately 14 MGD. Under the proposed agreement, SPU would receive water from the project no later than 2008, or it could withdraw from the project and receive a refund of certain project costs. The agreement has been signed by all parties except Seattle, and the Seattle City Council has authorized execution of the agreement.

Endangered Species Act

In 1999, the National Marine Fisheries Service ("NMFS") listed the Puget Sound chinook salmon, which migrate through waterways within and adjacent to the City, as a "threatened species" under the Endangered Species Act (the "ESA"). NMFS subsequently finalized a "4(d) rule" extending the ESA's prohibition against "take" to Puget Sound chinook salmon. This rule enables jurisdictions to submit plans that, if approved, would limit the application of the general prohibition to activities covered in the plan. Eligible activities include certain municipal, residential, commercial, and industrial development activities, certain road maintenance activities and certain forestry activities. The full implications of this listing and the 4(d) rule for the Water System are difficult to predict due to the many legal and scientific uncertainties associated with the application of the ESA to water supply operations.

In an effort to reduce uncertainty with regard to its largest water supply source, the Cedar River, the City entered into a Habitat Conservation Plan (the "HCP") with the U.S. Fish and Wildlife Service and NMFS. The HCP specifies the measures the City will undertake to minimize and mitigate potential impacts on listed species. The HCP commits the City to spend about \$93 million to improve conditions for fish and wildlife within the Cedar River watershed, including expenditure of about \$25 million over the next six years for capital improvements. See "Watershed Management Policies" and "Capital Improvement Program." While these measures include commitments to instream flow levels, the Water System's estimated firm yield would not be impacted adversely by the HCP. The incidental take permit, which the City was issued when the HCP was approved in 2000, protects the City from ESA liability resulting from potential impacts of the Water System's Cedar River operations on chinook salmon, bull trout and approximately 80 other species of anadromous fish known to be present and potentially affected. A lawsuit brought by the Muckleshoot Indian Tribe challenges the validity of the DOE's action in executing the Instream Flow Agreement for the Cedar River, which is an ancillary agreement to the HCP. This lawsuit was dismissed by the trial court and currently is on appeal. The litigation is not expected to affect the City's firm yield from the Cedar River source.

The second major Water System supply is drawn from the South Fork of the Tolt River, using a dam which, unlike the one on the Cedar River, is situated above a natural fish barrier. Streamflow levels downstream from the dam are affected by dam operations and water diversions, with potential impacts on chinook salmon. The City, tribes and several federal agencies have entered into the 1988 Tolt River Settlement Agreement, which includes commitments for streamflows and habitat improvements that were intended to mitigate for impacts caused by the City's water supply and power generation operations. The implications of the chinook listing for the Tolt River supply remain uncertain because, although other interested parties and agencies believe the flows are adequate for fish protection, NMFS has not made any determination as to their adequacy under the ESA. The City will attempt to resolve this uncertainty through one of the alternative mechanisms available under the ESA. At this point it is uncertain which mechanism will be used, how long it will take and whether additional mitigation will be required. However, it is anticipated that firm yield will not be affected.

Bull trout also have been listed as threatened and endangered and other fish listings can be anticipated. Because it is unknown whether bull trout are present in the Tolt River, the impact of the bull trout listing on the Tolt River and other City operations is unknown.

It is likely that other activities will be affected by the ESA. While facility construction and maintenance activities are under considerable environmental scrutiny, at a minimum there will be delays in permitting while federal, State and local agencies continue to sort out their respective regulatory roles. The extent to which additional costs will be incurred for mitigation specifically related to ESA is unknown.

To further manage legal risks, the City has invested in chinook salmon research for its major waterways and participated in regional watershed planning for the Cedar River and Green/Duwamish River. As a result, over the last two years it has assembled substantial data on chinook salmon and new scientific methods that provide the basis for development of best management practices (“BMPs”) in several key City activity areas, including most recently BMPs for water maintenance activities within road right-of-ways. In addition, salmon research and funding of staff at federal regulatory agencies responsible for ESA Section 7 consultations are allowing better project design, which are expected to result in fewer anticipated permit delays.

The City and SPU expect that additional funding will be needed to support habitat restoration programs that address salmon-related policy objectives. Funding for these programs is expected to come from a variety of sources, including City water rates, drainage and wastewater rates and general fund money, taxes or fees imposed by other local jurisdictions, and federal and State grants.

Transmission Facilities

The transmission facilities of the Water System consist of multiple primary transmission lines from the Cedar River, one transmission line from the Tolt River (“Tolt 1”) and a network of supply mains throughout the total service area. In all, there are approximately 153 miles of primarily concrete or steel pipelines ranging in diameter from 30 to 96 inches.

In the late eighties, two segments of the Tolt 1 ruptured and subsequent inspection revealed the potential for future failures due to corrosion in the steel rods which form a spiral wrapping for the pipe. All but one mile of the weakened pipe has been rehabilitated or sliplined. The last mile will be rehabilitated within the next five years. In addition, for both reliability and new capacity, a new 25.3-mile transmission line (“Tolt 2”) is being constructed that will begin at the Tolt source and run parallel to and interconnect with Tolt 1 at several locations. A total of 18 miles of Tolt 2 has been constructed, which is expected to provide adequate reliability and capacity for the foreseeable future.

To assist in maintaining water flow to the distribution portion of the Water System, the transmission system includes two regulating basins and six storage reservoirs. In addition, there are seven pumping stations with a total rated capacity of 100,250 gallons per minute (“GPM”). The following table shows the hydraulic capacities of the primary transmission lines and the transmission regulating basins and reservoirs of the Water System.

CAPACITY OF INDIVIDUAL COMPONENTS OF THE TRANSMISSION SYSTEM

Facility	Capacity
Transmission Lines (MGD):	
Cedar River	275
Tolt River ⁽¹⁾	<u>120</u>
Total	395
Storage Facilities (MG):	
Lake Youngs (regulating basin) ⁽²⁾	4,812
Tolt Regulating Basin ⁽²⁾	312
Reservoirs	<u>185</u>
Total	5,309

(1) Based on pipe that is currently in service or installed.

(2) Effective capacity under current operating guidelines is less than hydraulic capacity.

Source: Seattle Public Utilities

During the month of record maximum consumption, July 1985, the transmission pipelines delivered an average of 301 MGD.

Storage and Distribution

Storage of water within the distribution portion of the Water System is accomplished by nine reservoirs, built between 1901 and 1990, nine standpipes and seven elevated tanks with capacities as follows:

DISTRIBUTION CAPACITY (MGs)	
Reservoirs	256
Standpipes	9
Elevated Tanks	<u>10</u>
Total	275

Source: Seattle Public Utilities

SPU operates under storage guidelines promulgated by DOH. These guidelines specify a minimum amount of distribution storage capacity for emergencies of 200 gallons per residential household equivalent. Existing storage in the direct service area as a whole significantly exceeds the minimum requirement; some hilltop communities have less storage available by gravity, but can be supplied from lower elevation reservoirs by pumping.

The distribution system consists of approximately 1,660 miles of predominantly cast iron and ductile iron pipe. Concrete and steel pipe have been employed also; the only asbestos cement pipe is in a distribution system in a City park. To assist in maintaining adequate pressure within the distribution system, there are 25 electric and hydraulic pumping stations with a total rated pumping capacity of 261.3 MGD.

The storage and distribution facilities and conservation incentives have met the needs of the expanding population in the service area. Peak day consumption levels as high as 329 MG and 348 MG were recorded on June 29, 1987, and July 15, 1970, respectively. However, in the last ten years, peak daily consumption has averaged about 258 MG.

In the last decade, two studies have been conducted to evaluate leakage from the Water System. System-wide leakage is estimated at 3.1 MGD. Total uses of non-revenue producing water (leakage, system cleaning and flushing, fire fighting, and lake flushing) are estimated at 10 to 12 MGD, or about seven percent of total water usage.

Seismic Reliability

Since the late 1980's, several engineering evaluations have been made of the major parts of the Water System to assess the reliability of the Water System in the event of a major earthquake. Analysis has included the effects of (i) a magnitude 7.5 earthquake centered under a facility and (ii) a magnitude 8.25 subduction earthquake within 95 miles of a facility. Overall, Water System facilities generally are expected to remain operational in the event of a major earthquake. Most of the tank-type reservoirs, both elevated tanks and standpipes, are predicted to sustain some damage and leakage.

Remedial work was initiated in 1993 as part of an overall seismic improvement program and is expected to be completed in 2007. While the ultimate cost of the remedial work is uncertain, SPU believes that the projects and costs already included in the Capital Improvement Program (the "CIP") represent the major portion of the costs of the identified remedial program.

In February 2001 an earthquake of magnitude 6.8 centered beneath the Nisqually River Delta (between Tacoma and Olympia) caused an estimated \$2 billion in damages. Damage sustained to the Water System was relatively minor and loss of water service was limited to a few small neighborhood areas for less than a day.

Water Quality

Water provided by the Water System is of high quality due to the protection of the Cedar and Tolt River Watersheds from contamination by development and unsupervised human activity. In addition, the three wells on the aquifer south of the City that provide a small portion of the City's water supply are deep and afford natural protection from contamination.

As an operator of a community water system, SPU must comply with the requirements of the Safe Drinking Water Act of 1974, as amended. To help ensure continued compliance with drinking water standards and to maintain water quality in the distribution system, SPU operates a water quality laboratory certified by DOH for bacteriological and chemical analyses.

Disinfection with chlorine currently is the primary treatment used on the Cedar River water supply to meet public water supply disinfection requirements of the U.S. Environmental Protection Agency ("EPA") and DOH. The Tolt River supply is filtered and ozonated in a 120 MGD treatment facility completed in late 2000 and accepted by DOH in early 2001. In addition to disinfection agents, lime and soda ash (for corrosion control) and fluoride (for the prevention of dental caries) are added to the water supply. Water quality regulations of particular significance are discussed below.

Lead and Copper. Lead ingested by humans is a public health concern. Lead in water normally comes from plumbing materials, primarily from corrosion of lead solder used to connect copper pipes and from brass fixtures. SPU recognizes this as a potential problem and has been treating the water to reduce its corrosiveness since 1983. There is no lead or copper in the source water, and no lead service lines have been installed in the City's distribution system. Seattle was the first municipality in the nation to ban the use of lead solder in potable plumbing systems. The steps taken in the last two decades to reduce the corrosiveness of its water have been successful in reducing lead levels at customer taps. Some customers in the service area, however, have lead concentrations in their tap water that exceed EPA's threshold of 15 parts per billion. In response, the City is conducting a public education program to inform consumers of the risks of lead exposure and methods to reduce such exposure. As part of a Bilateral Compliance Agreement between SPU and DOH, SPU has optimized its treatment processes on the Tolt River to reduce the corrosiveness of the water.

Surface Water Treatment. The Surface Water Treatment Rule ("SWTR"), which was finalized by EPA in 1989, established filtration and disinfection requirements for water systems such as the City's that use surface water sources. It also established criteria under which such a water system can avoid filtration. These criteria include (i) watershed protection and management, (ii) raw water quality, (iii) treatment efficiency and redundancy, and (iv) some aspects of distribution system water quality. SPU has consistently met all the criteria except the one for fecal coliform densities in raw water prior to treatment. As a result of exceeding this criterion on the Cedar River source, SPU has entered into an Agreed Order with DOH requiring SPU to install ozonation and ultraviolet disinfection on the outlet of Lake Youngs. These additional treatment steps are intended to address the requirements of surface water treatment rules. The new Cedar River treatment facility is expected to be on line in 2004.

Disinfection Byproducts. The use of disinfectants to provide microbial protection of water can result in the formation of disinfection byproducts ("DBPs"). SPU expects to be able to meet the short- and long-term federal DBP regulations on the Tolt River system as a result of the improved treatment provided by the Tolt Treatment Facility's filtration process. DBP levels on the Cedar River are generally acceptable under the current treatment processes.

Open Reservoirs. The 1994 revisions to DOH drinking water regulations required the development of a plan to cover all open distribution reservoirs. The Water System developed a Reservoir Covering Plan, which DOH approved, and SPU is implementing the plan by beginning to cover its reservoirs.. Under the plan, all nine open reservoirs will be covered or otherwise replaced or relocated by 2020. These projects are being coordinated with other reservoir-related projects, as well as other major treatment or transmission improvements.

Arsenic and Radon. EPA is currently developing new regulations to address permissible levels of arsenic and radon. If promulgated, these regulations may affect SPU's use of the seasonal groundwater wells near the Seattle-Tacoma International Airport, but are not expected to impact other aspects of the Water System.

Watershed Management Policies

SPU carries out programs of watershed resource management, fire protection and the protection of water resources within the Cedar River and South Fork of the Tolt River Watersheds. Seattle City Light also operates a small hydroelectric plant in the Cedar River Watershed.

Land development impacts and more stringent regulatory standards have made ownership of the property in the watersheds an increasingly important element of SPU's overall strategy to preserve and enhance water quality. The City now owns more than 99 percent of the 141-square-mile Cedar River Watershed and 70 percent of the 21-square-mile South Fork of the Tolt River Watershed. The U.S. Forest Service owns the remaining 30 percent of the South Fork of the Tolt River Watershed.

Consolidated ownership of the Cedar River basin has resulted in strengthening forest management, wildlife and other programs that are based upon comprehensive management policies adopted in 1989 to guide the secondary uses of the watershed. Prior to 2000, management policies for the Cedar River Watershed provided for selective commercial harvest of second growth timber, with revenues generated from timber sales dedicated to the acquisition of lands and habitat within the watershed. Such harvest activities generated revenues of approximately \$1 million per year. The timber harvest program and related policies were re-evaluated during the development of the Cedar River Watershed HCP. In response to public sentiment, the City committed to discontinuing timber harvest for commercial purposes over the 50-year lifespan of the HCP. While trees may be cut, timber harvests are allowed only when they benefit fish or wildlife populations and support the goals and objectives of the HCP.

The HCP commits the City to improving fish and wildlife habitat, including salmonid fish passage, ecological and restoration thinning of more than 17,000 acres of second growth forest, restoration of riparian, wetland and stream habitats, and the abandonment of more than 200 miles of logging roads in the watershed.

Purveyor Contracts

Approximately 30 percent of water sales revenue is derived from sales to 27 Purveyors. Seventy-four percent of these sales by volume of water consumed are governed by contracts signed in 1982 which will expire in 2011. These contracts obligate the City to meet the Purveyors' demand for water (except in emergency conditions) and provide the City with the long-term commitments requisite to investing in future Water System expansions to serve the Purveyors. Under these contracts, any Purveyor that decides to develop alternative sources and leave the Water System must give five years' notice and hold harmless the City and remaining Purveyors from any increased capital and operating costs allocated to them as a result of such withdrawal.

Five Purveyors, representing about 25 percent of total Purveyor consumption, have signed new contracts with a 60-year term and relinquished their rights and responsibilities under the 1982 contract. These contracts obligate the City to meet the Purveyors' demand that is not already met by their existing sources of supply. Compared to the 1982 contract, the new contracts make it easier for a Purveyor to develop alternative sources of water and reduce its purchases from the City.

SPU also is negotiating a block sales contract with the Cascade Water Alliance ("CWA"), a consortium of eight current Purveyors representing about 48 percent of total Purveyor consumption. SPU anticipates that this contract will cap CWA demand from the Water System at approximately 40 MGD. CWA will develop sources of supply to satisfy the future water demands of CWA members above the cap amount and is funding feasibility studies for using Lake Tapps in Pierce County as a potable water supply. Under the block contract, CWA will likely be able to reduce the block of water it purchases from the Water System in increments of not more than 10 MGD in any five-year period. Even if CWA reduces the block of supply it purchases from the Water System, it is likely to continue to purchase transmission services.

The following table lists consumption in hundred cubic feet (“ccf”) by individual Purveyors and revenues generated by water sales to individual Purveyors in 2001.

WATER SALES TO PURVEYORS IN 2001

Purveyor	Consumption (ccf)	Revenue
Bellevue ⁽¹⁾	7,221,979	\$ 7,284,409
Kirkland ⁽¹⁾	2,861,685	2,951,567
Highline ⁽²⁾	2,856,390	2,638,042
Northshore ^{(1) (2)}	2,547,889	2,585,645
Woodinville ⁽¹⁾	2,040,624	2,552,559
Soos Creek ^{(1) (2)}	1,995,208	2,216,739
Water District #20 ⁽¹⁾	1,346,239	1,275,729
Tukwila	1,101,089	1,036,631
Mercer Island ⁽¹⁾	1,033,318	978,661
Coal Creek ^{(1) (2)}	942,044	1,058,657
Shoreline ⁽¹⁾	888,446	816,931
Cedar River ⁽²⁾	835,740	1,020,360
Bothell ⁽¹⁾	720,652	914,573
Water District #90 ⁽¹⁾	683,434	701,138
Water District #49	616,644	581,666
Water District #125	560,097	528,571
Olympic View	360,013	348,448
Other Purveyors	<u>1,119,019</u>	<u>1,445,692</u>
Total	<u>29,730,510</u>	<u>\$30,936,018</u>

(1) Indicates Purveyors that buy all water from SPU.

(2) Indicates Purveyors that have signed the new contract.

Source: Seattle Public Utilities

Major Retail Water Users

There are no major water-intensive users in the service area. The Water System’s ten largest retail water users in 2001 included the University of Washington, the Seattle Housing Authority, the Seattle Parks Department, the Port of Seattle, Seattle Steam, Birmingham Steel, Todd Shipyards, James Hardie Gypsum, Swedish Medical Center, and the Seattle School District. In the aggregate, revenue from these customers was less than six percent of operating revenues in 2001.

Water Rates

Establishment of Rates. Water rates are proposed by the Mayor, reviewed by the City Council and adopted after public hearings. The Mayor and the City Council have exclusive authority to set rates and charges for water services. The City is not subject to the rate-making jurisdiction of the Washington Utilities and Transportation Commission or any other State or federal agency.

In the last six years, water rates have increased at an average annual rate of 9.8 percent, as shown below.

<u>Year</u>	<u>Rate Increase</u>
1997	9.0%
1998	9.0
1999	10.5
2000	19.1
2001	5.9
2002	5.6

Source: Seattle Public Utilities

Current Rates. Rates were increased effective January 2002 with the intent of increasing revenues by 5.6 percent relative to the rates in effect at the end of 2001. Both retail and wholesale rates are seasonally differentiated; the summer residential rate has an inclining block structure.

**SEATTLE WATER SYSTEM
2002 MONTHLY WATER RATES**

	<u>Residential ⁽¹⁾</u>	<u>Commercial ⁽¹⁾</u>	<u>Purveyor</u>
Commodity Charge (\$ per ccf)			
Winter (eight months)	\$ 2.33	\$ 1.29	\$ 0.77
Summer (four months)		2.34	1.17
Up to 500 cubic feet ("cf")	2.33	NA	NA
Next 1000 cf	3.07	NA	NA
Over 1500 cf	11.40	NA	NA
Growth charge ⁽²⁾	NA	NA	0.68
Basic Service Charge (\$ per month) ⁽³⁾			
3/4"	\$ 4.10	\$ 4.10	NA
1"	6.70	6.70	\$ 54.00
1-1/2"	12.90	12.90	60.00
2"	20.50	20.50	66.00
4"	62.60	62.60	108.00

(1) Direct service rates to customers outside the City limits are 14 percent higher.

(2) An individual Purveyor pays a growth charge on any purchases in excess of purchases in the base period (1979–81).

(3) The Basic Service Charge is based on the size of the customer's meter. Rates for larger meters are not shown.

Source: Seattle Public Utilities

Rates to Purveyors served through master meters are established by the Purveyor contracts. SPU meters the peak instantaneous flow rate of Purveyors as a means of penalizing excessive peak demand on the Water System through a charge based on the equivalent financing cost of providing peak-hour storage. The proceeds of this charge are used to reduce revenue requirements when establishing wholesale rates.

Rate Comparisons. Seattle's water rates have risen faster than the rate of inflation over the past five years and now are above the average of other cities of its size.

The following table shows 2000 water bill rates for Seattle compared to other cities in the region.

**REGIONAL COMPARISONS
(2000 RATES)**

City	State	Residential (10 ccf/month)	Commercial (500 ccf/month)	Industrial (15,000 ccf/month)
Bellevue	Washington	\$ 25.41	\$ 1,021	\$ 29,484
Everett	Washington	16.75	465	11,775
Portland	Oregon	15.66	833	24,806
Seattle	Washington	25.18	724	21,339
Tacoma	Washington	14.28	411	7,654
Average		\$ 19.46	\$ 691	\$ 19,012

Source: SPU Survey

Billing. SPU accounts are billed bimonthly for residential and small commercial customers and monthly for larger accounts. Customers receive a combined utility bill that itemizes amounts due for water, wastewater and solid waste services. Payments received from the combined utility bills are allocated to the appropriate funds. If a payment received from a customer is insufficient to cover the total amount due and payable under the combined utility bill, that payment is credited first to the Solid Waste Fund. The balance of the payment is transferred to the Drainage and Wastewater Fund and then, if funds are available, to the Water Fund. If an account is 33 days past due, customers receive a water shut-off notice. By State law, water may be shut off when an account is delinquent. Delinquent charges bear interest at the rate of 12 percent per annum.

Capital Improvement Program

Capital investments are guided by the Water Plan and multi-year CIP, which is developed within the framework of the Water Plan and included in the Capital Improvement Program of the City as a whole. The CIP is reviewed, revised and adopted annually by the Mayor and Council as part of the City's budget process. See "Comprehensive Planning." The CIP and the Water Plan are the basic elements of the Plan of Additions, for which the Bonds are a partial funding source. The CIP identifies facility needs and financing for rehabilitation, enhancement and expansion of the Water System. Currently its goals are to rehabilitate the water distribution system, make seismic improvements at a few critical locations and make water quality improvements.

Over the long term the CIP is estimated to cost \$1.0 billion (in constant 2000 dollars). Future bond financings over the next six years are estimated to total \$325 million (2000 dollars). In the period 2002 through 2006, the CIP will require a higher than historical level of investment which is due, in large part, to the completion of the second transmission line on the Tolt River source and a new treatment facility on the Cedar River source. Including the Bonds, SPU expects to issue approximately \$313 million in debt for the CIP during the period 2002 through 2006. Annual debt service is expected to rise from \$47.4 million in 2001 to \$63.9 million in 2006.

The CIP is organized into six program areas: (i) Water Infrastructure, (ii) Water Quality, (iii) Water Supply, (iv) Technology, (v) Habitat Conservation Plan, and (vi) Other Agency Projects, as shown in the table below.

**WATER SYSTEM
CAPITAL IMPROVEMENT PROGRAM
(Amounts in Thousands)**

	2002	2003	2004	2005	2006	Total
Program Area						
Water Infrastructure	\$ 33,269	\$ 28,224	\$ 38,793	\$ 35,375	\$ 51,847	\$187,508
Water Quality	42,600	44,094	35,946	9,199	12,616	144,455
Water Supply	6,649	7,123	5,195	5,091	6,201	30,259
Technology	5,298	4,832	4,953	5,076	5,230	25,389
Habitat Conservation Plan	8,755	8,425	10,410	9,303	2,974	39,867
Other Agency Projects	2,636	2,119	2,059	2,027	1,820	10,661
Total	\$ 99,207	\$ 94,817	\$ 97,356	\$ 66,071	\$ 80,688	\$438,139
Funding Sources						
Debt Financing						
Outstanding Bonds	\$ 35,382	\$ 0	\$ 0	\$ 0	\$ 0	\$ 35,382
The Bonds	50,757	14,243	0	0	0	65,000
Future Bonds	0	65,720	78,364	45,751	58,168	248,003
Total Debt Financing	86,139	79,963	78,364	45,751	58,168	348,385
Internally Generated Funds	8,426	10,155	14,247	15,516	17,655	66,000
Grants and Reimbursement	4,641	4,699	4,745	4,805	4,865	23,754
Total	\$ 99,206	\$ 94,817	\$ 97,356	\$ 66,072	\$ 80,688	\$438,139

Source: Seattle Public Utilities

The development of the CIP balances financial capacity with the demands of rehabilitation, improvement, water quality, and expansion. In response, SPU has steadily expanded the Water System CIP, raised rates and increased its long-term borrowing plans. In managing the expansion of the CIP, SPU has emphasized efficient project design and careful staging of improvements within the 20-year time frame of the Water Plan. In the period 2002 through 2006, SPU expects the financial requirements for these projects to be met from Net Revenue of the Water System, the proceeds of the Bonds and the proceeds of Future Parity and Subordinate Lien Bonds (approximately \$313 million). Over 80 percent of the cost of the CIP is expected to be financed by the issuance of bonds.

Other Projects. The City Council has authorized the City's participation in the Tacoma Second Supply Project. See "Future Water Supply and Conservation." The agreement on the Tacoma SSP is expected to provide SPU flexibility to finance its share of the project directly, or to pay a share of the project financing arranged by Tacoma. At this time, SPU anticipates that Tacoma will issue any debt related to the Tacoma SSP, and that SPU will pay Tacoma for SPU's share of debt service as an operating expense. Because SPU anticipates paying its share of Tacoma SSP costs as an operations expense, these costs are not included in the CIP for the period 2002 through 2006.

Financial Policies

The Mayor and Council have established financial policies by resolution for SPU, including the Water System. In accordance with these policies, water rates are set to achieve generally positive net income and cash balances and a minimum debt service coverage ratio on fixed rate long-term Parity Bonds of 1.70 times annual debt service. These financial policies are subject to change by the Mayor and the Council.

Financial Performance

The table "Operating Results" shows historical revenues and expenses of the Water System for the years 1997 through 2001, estimated revenues and expenses for 2002 and projected revenues and expenses for 2003. The

projections for 2003 assume a 2.5 percent inflation rate, 5.5 percent interest cost on new long-term bonds, 4.95 percent interest cost on variable rate debt (including the Bonds), and 9.7 percent increase in water rates.

IN THE PREPARATION OF THE PROJECTIONS IN THIS OFFICIAL STATEMENT, THE CITY HAS MADE CERTAIN ASSUMPTIONS WITH RESPECT TO CONDITIONS THAT MAY OCCUR IN THE FUTURE. WHILE THE CITY BELIEVES THAT, AS OF THE DATE OF THIS OFFICIAL STATEMENT, THESE ASSUMPTIONS ARE REASONABLE FOR THE PURPOSE OF THE PROJECTIONS, THEY DEPEND UPON FUTURE EVENTS, INCLUDING A WIDE VARIETY OF RISKS AND UNCERTAINTIES. ACTUAL CONDITIONS MAY DIFFER MATERIALLY FROM THOSE ASSUMED. THE CITY DOES NOT REPRESENT, WARRANT OR GUARANTEE THAT ACTUAL RESULTS WILL REPLICATE THE ESTIMATES IN THE VARIOUS TABLES SET FORTH IN THIS OFFICIAL STATEMENT. POTENTIAL PURCHASERS OF THE BONDS SHOULD NOT RELY ON THE PROJECTIONS IN THIS OFFICIAL STATEMENT AS STATEMENTS OF FACT. SUCH PROJECTIONS ARE SUBJECT TO CHANGE, AND WILL CHANGE, FROM TIME TO TIME. THE CITY HAS NOT COMMITTED ITSELF TO PROVIDE INVESTORS WITH UPDATED FORECASTS OR PROJECTIONS.

NEITHER SPU'S INDEPENDENT AUDITORS, NOR ANY OTHER INDEPENDENT ACCOUNTANTS, HAVE COMPILED, EXAMINED OR PERFORMED ANY PROCEDURES WITH RESPECT TO THE PROSPECTIVE FINANCIAL INFORMATION CONTAINED HEREIN, NOR HAVE THEY EXPRESSED ANY OPINION OR ANY OTHER FORM OF ASSURANCE ON SUCH INFORMATION OR ITS ACHIEVABILITY, AND ASSUME NO RESPONSIBILITY FOR, AND DISCLAIM ANY ASSOCIATION WITH, THE PROSPECTIVE FINANCIAL INFORMATION.

WATER SYSTEM OPERATING RESULTS

	Actual					Projected	
	1997	1998	1999	2000	2001	2002	2003
Operating Revenue							
Water Sales	\$ 70,679,543	\$ 81,502,212	\$ 85,262,080	\$ 104,181,106	\$ 103,827,467	\$ 113,313,032	\$ 129,862,546
Other	1,276,817	1,345,067	992,719	1,177,201	1,517,850	1,031,000	1,055,000
Total Operating Revenue	\$ 71,956,360	\$ 82,847,279	\$ 86,254,799	\$ 105,358,307	\$ 105,345,317	\$ 114,344,032	\$ 130,917,546
Other Income							
Interest Income-Other	\$ 2,576,790	\$ 2,485,622	\$ 1,948,977	\$ 7,106,312	\$ 2,206,349	\$ 2,434,485	\$ 2,096,493
Timber Income and Other, Net	827,880	460,104	(406,470)	1,281,234	1,456,845	379,000	381,000
Total Other Income	\$ 3,404,670	\$ 2,945,726	\$ 1,542,507	\$ 8,387,546	\$ 3,663,194	\$ 2,813,485	\$ 2,477,493
Operating Expenses							
Operating and Maintenance Expenses							
Expenses	\$ 37,018,782	\$ 42,740,762	\$ 45,385,001	\$ 44,326,034	\$ 51,735,755	\$ 48,142,000	\$ 53,436,510
Taxes Other Than City Taxes	2,695,227	3,041,004	3,186,323	3,684,762	3,705,544	4,268,111	4,579,507
Other Expenses							
City Taxes	4,942,896	5,447,946	5,670,495	6,890,171	7,157,162	8,004,157	8,616,293
Depreciation	18,901,079	18,616,744	19,625,179	18,424,697	23,748,307	26,690,000	29,724,000
Total Operating Expenses	\$ 63,557,984	\$ 69,846,456	\$ 73,866,998	\$ 73,325,664	\$ 86,346,768	\$ 87,104,268	\$ 96,356,310
Interest Expenses and Amortization of Debt Issue Costs and Net Discount	14,248,169	15,555,390	17,342,738	19,692,141	23,248,432	31,600,846	34,533,750
Net Income ⁽¹⁾	\$ (2,445,123)	\$ 391,159	\$ (3,412,430)	\$ 20,728,048	\$ 4,883,992	\$ 3,093,403	\$ 7,203,979
Contribution in Aid of Construction	\$ 5,123,704	\$ 5,276,752	\$ 7,457,305	\$ 5,183,193	\$ 5,470,681	\$ 4,641,000	\$ 4,699,000
Transfer to/from Rate Stabilization Fund	0	5,800,000	0	(4,252,000)	1,252,000	3,000,000	0
Accrued and Other Non-Cash Expenses	0	(124,742)	4,612,609	(18,004)	688,494	0	0
Revenue Available for Debt Service ⁽²⁾	\$ 40,770,725	\$ 50,963,249	\$ 51,295,896	\$ 66,648,246	\$ 60,978,387	\$ 72,388,406	\$ 80,078,022
Debt Service ⁽³⁾							
Prior Lien Debt Service	\$ 22,036,925	\$ 25,491,770	\$ 31,177,241	\$ 41,316,088	\$ 44,540,206	\$ 47,116,045	\$ 47,126,205
Parity Lien Debt Service	1,623,401	1,477,558	1,647,215	2,728,236	2,333,042	5,904,800	7,373,374
Total Debt Service	\$ 23,660,326	\$ 26,969,328	\$ 32,824,456	\$ 44,044,324	\$ 46,873,248	\$ 53,020,845	\$ 54,499,579
Debt Service Coverage							
Prior Lien Debt Service Coverage	1.85	2.00	1.65	1.61	1.37	1.54	1.70
Parity Lien Debt Service Coverage	11.54	17.24	12.21	9.29	7.05	4.28	4.47
Overall Debt Service Coverage	1.72	1.89	1.56	1.51	1.30	1.37	1.47

(1) Net income in 2001, 2002 and 2003 includes contribution in aid of construction.

(2) Revenue available for debt service = net income + contribution in aid of construction + interest expenses + City taxes + depreciation - ULID interest income +/- rate stabilization fund transfers. Under the City charter, City taxes are payable after payment of debt service.

(3) Interest rate assumed for projected prior lien debt service is 5.5 percent; interest rate assumed for projected parity lien debt service is 4.95 percent.

Source: Seattle Public Utilities

The Water System has been designed and maintained to require a minimum of pumping and treatment, and does not rely on outside sources to meet water demand. Productivity improvements and reallocation of resources have allowed the Water System to manage an increasing work load related to environmental, water quality and governance issues with modest increases in operating and maintenance expenses over the last five years. However, during the last five years SPU has greatly expanded the size of its CIP and has raised rates to support these investments.

Operating revenues are generated primarily from wholesale and retail water sales. From 1997 to 2001, revenue increased by 47 percent, all of which was attributable to rate increases as there was no demand growth during this period. See "Water Rates."

The Water System is currently managing a significant plan of additions, including operating cost increases due to new facilities. Debt service coverage levels are expected to be below policy targets until 2003 in order to provide a stable path of water rate increases and avoid rate shocks. However, financial performance is expected to meet cash and net income targets.

Operations costs of the Water System are increasing because of new treatment facilities and the Tacoma SSP. Activation of the new Tolt River treatment plant increased operations costs by about \$2.3 million in 2001. Operations costs for the facility for 2002 and 2003 are projected to be \$2.2 million and \$2.3 million, respectively. SPU anticipates paying its share of Tacoma SSP operations and debt service costs to Tacoma as an operations expense beginning in 2003. The projected cost to SPU for the Tacoma SSP is \$3.7 million in 2003, which is expected to ramp up to about \$6 million per year by 2006. SPU is not subject to unanticipated increases in water purchase costs as its own supplies of water are sufficient to meet demand in this period. With the exception of the project-related operations cost increases above, operating expenses are expected to increase with the rate of inflation.

Efforts have been made to avoid rate spikes and to assure a relatively even rate of increase over the next six years. The Water System plans to increase rates by nine percent in 2003, with the expectation that rate increases of similar magnitude will be necessary for several years to come.

THE CITY OF SEATTLE

The following provides general information about the City.

Municipal Government

Incorporated in 1869, the City of Seattle, Washington, is the largest city in the Pacific Northwest and is the county seat of King County (the “County”). The City’s elected officials are a mayor, nine City Council members and a city attorney. These officials are elected at large to four-year terms. The City provides four utility services funded by rates and charges: electricity, water, drainage and wastewater, and solid waste.

Financial Management

City financial management functions are provided by the Department of Finance. Dwight D. Dively is the Director of Finance. Mr. Dively is a graduate of Rose-Hulman Institute of Technology, holds a master’s degree from Princeton University in public affairs and is a Ph.C. in civil engineering at the University of Washington.

Accounting. The accounting and reporting policies of the City conform to generally accepted accounting principles for municipal governments and are regulated by the State Auditor’s Office, Division of Municipal Corporations, which maintains a resident staff at the City to perform a continual current audit as well as the annual post-fiscal year audit of City financial operations. The Department of Finance maintains general supervision over financial transactions of all City funds.

Auditing. The State Auditor is required to examine the affairs of all local governments at least once every three years; the City is audited annually. The examination must include, among other things, the financial condition and resources of the City, compliance with the laws and Constitution of the State, and the methods and accuracy of the accounts and reports of the City. Reports of the Auditor’s examinations are required to be filed in the office of the State Auditor and in the Department of Finance. The City’s Comprehensive Annual Financial Report may be obtained from the Department of Finance by calling (206) 684-8300, or from the Nationally Recognized Municipal Securities Information Repositories.

Municipal Budget. City operations are guided by a budget prepared under the direction of the Mayor by the City Budget Office within the Department of Finance pursuant to State statute (Chapter 35.32A RCW). The proposed budget is submitted to the City Council by the Mayor each year not later than 90 days prior to the beginning of the next fiscal year. Currently the fiscal year of the City is from January 1 through December 31. The City Council considers the proposed budget, holds public hearings on its contents and may alter and revise the budget at its discretion, subject to the State requirement that budgeted revenues must at least equal expenditures. The City Council is required to adopt the budget at least 30 days before the beginning of the next fiscal year.

Investments. THE INFORMATION IN THIS SECTION DOES NOT PERTAIN TO PENSION FUNDS, WHICH ARE ADMINISTERED BY THE SEATTLE CITY EMPLOYEES’ RETIREMENT SYSTEM, AND SOME DEBT ISSUANCE PROCEEDS THAT ARE ADMINISTERED BY TRUSTEE SERVICE PROVIDERS.

All cash-related transactions for the City, including its utilities, are administered by the Treasury Division of the Department of Finance. City cash is deposited into a single bank account and cash expenditures are paid from a consolidated disbursement account. Investments of temporarily idle cash may be made, according to existing City Council-approved policies, by the Treasury Division in the following securities:

- (i) U.S. Treasury and agency issues;
- (ii) bankers’ acceptances sold on the secondary market;
- (iii) repurchase and reverse repurchase agreements, when structured with securities eligible for purchase and when executed under an approved Master Repurchase Agreement with selected primary dealers; and
- (iv) commercial paper purchased in the secondary market which has received the highest ratings of at least two nationally recognized rating agencies.

State statutes, City ordinances and Department of Finance policies require the City to minimize market risks by safekeeping all purchased securities according to governmental standards for public institutions and by maintaining safety and liquidity above consideration for returns. Current City investment policies require periodic reporting about the City's investment portfolio to the Mayor and the City Council. The City's investment operations are reviewed by the City Auditor and by the State Examiner.

As of March 31, 2002, the combined investment portfolios of the City totaled \$823.2 million at book value. The City's cash pool is constituted solely of City funds. The City does not invest any of its funds in other pools, with the exception of tax collection receipts initially held by the County and funds of the Seattle City Employees' Retirement System and the Deferred Compensation Plan. The average yield on the City's consolidated pool of investments in 2001, on a cash and accrual basis, was 5.3 percent. As of March 31, 2002, the average maturity date of the portfolio was July 31, 2004. Approximately 27.6 percent, or \$227.3 million, was invested in securities with maturities of three months or less. The City held no securities with maturities longer than 15 years. Investments were allocated as follows:

U.S. Government and Agency Securities	58.6%
Commercial Paper	25.9
U.S. Treasury Securities	4.5
Federal Discount Notes	4.5
Repurchase Agreements	3.8
Certificates of Deposit	1.5
Federal Farm Credit Bank	0.9
Mortgage-backed Securities	0.3

Source: City of Seattle

Interfund Loans. City ordinances authorize the Director of Finance to approve interfund loans for a duration of up to 90 days and to establish a rate of interest on such loans. Extension or renewal of interfund loans requires City Council approval by ordinance. The Director of Finance also is authorized by City ordinance to make loans to individual funds participating in a common investment portfolio by carrying funds in a negative cash position for a period of up to 90 days, or for a longer period upon approval by ordinance, to the extent that such loans can be supported prudently by the common investment portfolio and the borrowing fund is reasonably expected to be able to repay the loan. Loans of this type bear interest at the common investment portfolio's rate of return.

Risk Management

The City maintains \$25,000,000 liability insurance, with a \$5,000,000 self-insured retention for each occurrence. The City also maintains \$200,000,000 property insurance, with a \$100,000 deductible for each occurrence, on City-owned buildings (including Water System buildings) with value greater than the deductible, unless insurance of at least equivalent value is provided by other parties. Other Water System facilities such as reservoirs and diversion dams are self-insured. Workers compensation is insured to statutory limits, with a \$500,000 self-insured retention for each occurrence. In addition, insurance policies are purchased to cover other property and casualty exposure.

Pension System

Nearly all permanent non-uniformed City employees participate in the Seattle City Employees' Retirement System (the "Plan"), a single employer public employee retirement system. The payroll for City employees covered by the Plan for the year ended December 31, 2001, was \$405.0 million; total City payroll was \$619.5 million. Nearly all City employees are required to contribute 8.03 percent of their annual base salary to the Plan, and the City contributes an additional 8.03 percent. As of January 1, 2001, system assets exceeded the accrued actuarial liability. The actuarial present value of future benefits was \$1.988 billion, the actuarial present value of future normal costs for present members was \$497.8 million and the actuarial value of assets available for benefits was \$1.493 billion. Combined employee and employer contributions to the Plan totaled approximately \$69.3 million for the year ending December 31, 2001. Due to changes in interest rates, it is expected that a new actuarial study completed in 2002 will show a deficit.

Labor Relations

The City has 34 separate departments and offices with approximately 13,000 regular and temporary employees. Thirty different unions and 45 bargaining units represent approximately 75 percent of the City's regular employees. The City's contract with the Seattle Police Officers Guild was ratified in July 2000 and extends through the end of 2002. The contract with the Seattle Police Management Association (representing lieutenants and captains in the Police Department) expired at the end of 2001, and negotiations for a successor contract are continuing. The City has recently approved new three-year contracts with the coalition of City unions representing most non-uniformed City employees, and with IBEW Local 77, which represents electrical workers in the City Light and Transportation departments. The City also has recently concluded agreements with Firefighters Local 27 and Fire Chiefs Local 2898. These new contracts generally extend through 2004.

DEMOGRAPHIC AND ECONOMIC INFORMATION

King, Snohomish and Island Counties constitute the Seattle-Bellevue-Everett Primary Metropolitan Statistical Area (the "Seattle PMSA"), the fourth-largest metropolitan center on the West Coast. The City of Seattle, encompassing 92 square miles, is the largest city in the Pacific Northwest and is the center of King County's economic activity. Of the State's population, nearly 30 percent reside in King County, and of the County's population, 33 percent live in the City.

Population

The 1990 and 2000 U.S. Census population figures and recent population estimates for the City, King County and the Seattle PMSA are as follows:

Year	Seattle	King County	Seattle PMSA
2001 ⁽²⁾	568,100	1,758,300	NA
2000 ⁽¹⁾	563,374	1,737,034	2,414,616
1999 ⁽²⁾	540,500	1,677,000	2,333,600
1998 ⁽²⁾	539,700	1,665,800	2,306,400
1997 ⁽²⁾	536,600	1,646,200	2,269,000
1996 ⁽²⁾	534,700	1,628,800	2,237,200
1990 ⁽¹⁾	516,259	1,507,319	1,972,961

(1) Source: U.S. Census

(2) Source: Washington State Office of Financial Management, Forecasting Division

Per Capita Income

The following table presents per capita personal income.

	2000	1999	1998	1997	1996
Seattle PMSA	n/a	\$ 39,880	\$ 36,616	\$ 33,484	\$ 31,356
King County	n/a	44,719	40,519	36,476	34,203
State of Washington	\$ 31,129	30,380	28,579	26,802	25,287

Source: U.S. Bureau of Economic Analysis, U.S. Department of Commerce

Building Permit Value

The table below lists the value of construction for which residential building permits have been issued by the City of Seattle. The value of public construction is not included in this table.

CITY OF SEATTLE RESIDENTIAL BUILDING PERMITS

Year	New Single Family		New Multifamily		Total Value
	Units	Value	Units	Value	
2001*	422	\$ 64,296,296	2,681	\$ 187,693,561	\$ 251,989,857
2000	449	64,587,520	4,403	286,312,450	350,899,970
1999	480	65,696,744	3,065	191,087,633	256,784,377
1998	530	71,640,186	3,534	219,183,170	290,823,356
1997	469	68,601,487	1,930	147,134,120	215,735,607
1996	471	57,020,491	2,008	108,897,560	165,918,051

* Through October 2001

Source: Building Permit Activity of City and County in the State of Washington, BP Logistics

Industry and Employment

The table below shows employment by sector and unemployment for the Seattle PMSA.

SEATTLE-BELLEVUE-EVERETT PMSA (KING, SNOHOMISH AND ISLAND COUNTIES) RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT

	Average Annual ⁽¹⁾				
	2001	2000 ⁽²⁾	1999 ⁽³⁾	1998	1997
Civilian Labor Force					
Employment	1,292,600	1,344,500	1,357,200	1,337,300	1,297,500
Unemployment	70,400	52,000	47,600	42,700	44,800
Total Civilian Labor Force	1,362,900	1,396,500	1,404,800	1,380,000	1,342,300
Unemployment Rate ⁽⁴⁾	5.2%	3.7%	3.4%	3.1%	3.3%
Nonagricultural Employment					
Manufacturing					
Aircraft and parts	NA	82,400	95,100	108,200	101,100
Misc. trans. equipment	NA	9,100	9,500	9,300	8,800
Food products	NA	15,200	14,900	16,100	17,000
Wood products and paper	NA	12,100	12,100	12,500	12,400
Machinery and electrical	NA	22,100	22,200	21,700	20,700
Instruments	NA	11,700	11,900	12,100	11,800
Textiles, apparel and leather	NA	4,400	4,500	4,900	5,100
Printing and publishing	NA	14,400	13,700	13,800	14,100
Other manufacturing categories	NA	29,300	30,100	29,700	27,800
Total manufacturing	NA	200,700	214,000	228,200	218,800
Nonmanufacturing					
Mining and quarrying	NA	1,100	700	700	700
Contract construction	NA	84,300	78,400	73,300	66,500
Transp., commun. and utilities	NA	87,900	84,000	81,000	77,700
Wholesale and retail trade	NA	335,900	325,000	315,500	304,000
Finance, insurance and real estate	NA	84,000	84,600	81,500	76,700
Services	NA	438,000	408,700	390,800	371,400
Government	NA	190,500	187,000	183,000	178,100
Total nonmanufacturing	NA	1,221,700	1,168,400	1,125,600	1,075,100
Total Nonagricultural Employment	NA	1,422,400	1,382,400	1,353,800	1,293,900

(1) Columns may not add to totals due to rounding.

(2) Preliminary.

(3) Revised.

(4) Unemployment rate as of February 2002 estimated at 7.1 percent.

Source: Washington State Department of Employment Security

The following table presents employment data for major employers in the Puget Sound area, which is defined for the purposes of this section as Island, King, Kitsap, Pierce, San Juan, Skagit, Snohomish, Thurston, and Whatcom Counties, Washington.

**PUGET SOUND AREA
MAJOR EMPLOYERS**

Employer	Number of Employees
The Boeing Company	69,900
Microsoft	24,700*
University of Washington	23,500
King County	13,500
City of Seattle	11,200
Safeway	11,000
Group Health Cooperative	9,700
Sisters of Providence Health	8,150
Fred Meyer	8,100
Alaska Air Group	6,000

* As of January 1, 2002.

Sources: Company websites and calls to individual employers, April 2002.

The Boeing Company ("Boeing") had revenues of \$58.0 billion in 1999, \$51.3 billion in 2000 and \$58.2 billion in 2001. Total airplane deliveries in 2001 were 527, compared to 489 in 2000. Boeing remains the largest employer in the Puget Sound area, although total employment within the company dropped from 238,600 to 180,600 and employment within the State dropped from 103,420 to 69,900 between February 1998 and March 2002. In September 2001, Boeing moved its corporate headquarters to Chicago, Illinois. Subsequent to the events of September 11, 2001, Boeing announced its plans to lay off between 20,000 and 30,000 employees company-wide by the end of 2002 (as partially reflected in the table above).

Microsoft, which is headquartered in Redmond, is the region's largest high technology employer with more than 48,000 employees worldwide, including 24,700 in the Puget Sound area as of January 1, 2002. Microsoft is a developer and manufacturer of computer operating systems and software. Microsoft's fiscal year 2001 revenues were \$25.3 billion, a 10 percent increase over fiscal year 2000 revenues.

Retail Activity

The following table presents taxable retail sales in Seattle and King County.

**THE CITY OF SEATTLE AND KING COUNTY
TAXABLE RETAIL SALES (000)**

Year	The City of Seattle	King County
2001	\$ 12,942,596	\$ 36,003,190
2000	13,625,486	37,383,541
1999	12,728,470	34,810,738
1998	11,452,958	31,749,546
1997	10,633,522	29,154,617
1996	9,635,640	26,402,602
1995	9,216,804	25,065,320

Source: Washington State Department of Revenue

Other Information

A variety of additional issues may have an effect on the economy of the Seattle area, including but not limited to transportation infrastructure, endangered species listings, the commercial real estate market, higher energy

costs, limits on residential development and resulting housing costs, and the September 11, 2001, terrorist attacks and their effect on aerospace, tourism and travel. The effects of these issues are interdependent and cannot be quantified.

INITIATIVE AND REFERENDUM

Under the State Constitution, Washington voters may initiate legislation and require the Legislature to refer legislation to the voters through the powers of initiative and referendum, respectively. Any such law approved by a majority of the voters may not be amended or repealed by the Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the law is subject to amendment or repeal by the Legislature in the same manner as other laws.

Washington State Initiative Measure No. 695 (“I-695”), which would have required voter approval for any increase in taxes, impact fees, permit fees, or any governmental “monetary charge,” was approved by voters on November 2, 1999. On October 26, 2000, the Washington Supreme Court declared I-695 unconstitutional in its entirety. On November 7, 2000, the State’s voters approved Initiative 722 (“I-722”), which would have limited property tax growth to two percent per year and would have rolled back some tax and fee increases. In September 2001, the Washington Supreme Court voided I-722 on the grounds that it violated the State Constitution’s ban on more than one subject in any legislation, including an initiative. Initiative Measure No. 747 (“I-747”) was approved by the voters on November 6, 2001, and took effect on December 6, 2001. I-747 generally limits the growth of each government’s revenue from property tax to one percent per year. I-747 is expected to reduce increases in future property tax revenue to the City, and that reduction will have an effect on budgeted general fund expenditures. I-747 will have no impact on the City’s ability to raise water rates or pay debt service on the Bonds.

Other tax and fee initiative measures have been and may be filed, but it cannot be predicted whether any such initiatives might gain sufficient signatures to qualify for submission to the Legislature and/or the voters or, if submitted, whether they ultimately would be approved.

Under the City Charter, Seattle voters also may initiate local legislation and City Charter amendments and modify existing legislation through the powers of initiative and referendum. See “Water System—Future Water Supply and Conservation.”

LEGAL AND TAX INFORMATION

Litigation

There is no litigation pending with process properly served on the City questioning the validity of the Bonds or the power and authority of the City to issue the Bonds.

Approval of Counsel

Legal matters incident to the authorization, issuance and sale of the Bonds by the City are subject to the approving legal opinions of Foster Pepper & Shefelman PLLC, Bond Counsel. A form of the opinions of such firm with respect to the Bonds is attached hereto as Appendix B. Bond Counsel will be compensated only upon the issuance and sale of the Bonds. Certain legal matters in connection with the Bonds will be passed upon by Preston Gates & Ellis LLP, Seattle, Washington, counsel to the Remarketing Agents.

Tax Exemption

Exclusion from Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Code, that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

Continuing Requirements. The City is required to comply with certain requirements of the Code after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Bonds. The City has covenanted in the Ordinance to comply with those requirements, but if the City fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds.

Corporate Alternative Minimum Tax. While interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the Bonds, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75 percent of the excess of the corporation's adjusted current earnings (including any tax-exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of \$40,000, which exemption will be reduced (but not below zero) by 25 percent of the amount by which the corporation's alternative minimum taxable income exceeds \$150,000, is then subject to a 20 percent minimum tax.

For taxable years beginning after December 31, 1997, the corporate alternative minimum tax is repealed for a small business corporation that had average gross receipts of less than \$5 million for the three-year period beginning after December 31, 1994, and such a small business corporation will continue to be exempt from the corporate alternative minimum tax so long as its average gross receipts do not exceed \$7.5 million.

Tax on Certain Passive Investment Income of S Corporations. Under Section 1375 of the Code, certain excess net passive investment income, including interest on the Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25 percent of the gross receipts of such S corporation is passive investment income.

Foreign Branch Profits Tax. Interest on the Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

Certain Other Federal Tax Consequences

Bonds Not "Qualified Tax-Exempt Obligations" for Financial Institutions. Section 265 of the Code provides that 100 percent of any interest expense incurred by banks and other financial institutions for interest allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as "qualified tax-exempt obligations," only 20 percent of any interest expense deduction allocable to those obligations will be disallowed.

The City is a governmental unit that, together with its subordinate entities, reasonably anticipates issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year and has not designated the Bonds as "qualified tax-exempt obligations" for purposes of the 80 percent financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Bonds is deductible for federal income tax purposes.

Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies. Under Section 832 of the Code, interest on the Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15 percent of tax-exempt interest received during the taxable year.

Effect on Certain Social Security and Retirement Benefits. Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the Bonds into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest on the Bonds may have other federal tax consequences as to which prospective purchasers of the Bonds may wish to consult their own tax advisors.

Continuing Disclosure Undertaking

The Bonds initially will be in Authorized Denominations of \$100,000 and will have an Interest Period of less than nine months; therefore, the Bonds are not subject to Rule 15c2-12(b)(5) of the Securities and Exchange Commission (the “Rule”). In the Resolution the City has agreed that if the Bonds of a series are converted to a Mode with Authorized Denominations of less than \$100,000 and/or with an Interest Period of more than nine months the City, prior to the Mode Change Date, will enter into an undertaking with respect to the Bonds of that series in compliance with the Rule.

In the Ordinance, the City has covenanted to prepare annual financial and operating statements as soon as practicable after the close of each fiscal year showing in reasonable detail the financial condition of the Water System as of the close of the previous year, and the income and expenses for such year. Such statements will be sent to the Owners of the Bonds upon written request made to the Department of Finance. The City may charge a reasonable cost for providing such financial statements.

Other Continuing Disclosure Undertakings of the City. The City has entered into undertakings to provide annual information and the notice of the occurrence of certain events with respect to all bonds issued by the City on and after July 3, 1995, subject to the Rule. The City is in compliance with all such undertakings.

OTHER BOND INFORMATION

Ratings on the Bonds

As noted on the cover page of this Official Statement, the Bonds have been assigned long-term ratings of “Aaa” and “AAA” by Moody’s and S&P, respectively, and short-term ratings of “VMIG 1” and “A-1+,” respectively. The ratings reflect only the views of the rating agencies, and an explanation of the significance of the ratings may be obtained from each rating agency. No application was made to any other rating agency for the purpose of obtaining an additional rating on the Bonds. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings will be likely to have an adverse effect on the market price of the Bonds.

Purchasers of the Bonds

The Series A Bonds are to be purchased by J.P. Morgan Securities Inc. at a price of par less the underwriter’s discount. The Series B Bonds are to be purchased by Lehman Brothers Inc. at a price of par less the underwriter’s discount. The bond purchase contracts provide that the Remarketing Agents will purchase all of the Bonds of a series if any are purchased.

Official Statement

So far as any statements are made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Information concerning the City, SPU and the Water System contained in this Official Statement has been furnished by the City. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the Owners or beneficial owners of any of the Bonds.

The execution and delivery of this Official Statement have been duly authorized by the City.

The City of Seattle

By: /s/ Dwight D. Dively
Dwight D. Dively
Director of Finance

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APPENDIX A

ORDINANCE

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ORDINANCE 120548

AN ORDINANCE relating to the municipal water system of The City of Seattle; adopting a system or plan of additions and betterments to and extensions of the existing municipal water system; declaring the estimated costs thereof; providing for the sale and issuance of water system adjustable rate revenue bonds to provide funds with which to pay part of the cost of carrying out that system or plan to provide for a reserve for the bonds if provided by resolution of the City Council and to pay costs of issuance of the bonds; providing for certain terms, conditions, covenants, security and manner of sale of the bonds; authorizing the Director of Finance to conduct a negotiated sale of the bonds subject to City Council approval by resolution the amount, maturities, interest rates or methods of determining interest rates, and other terms of the bonds consistent with this ordinance; creating certain accounts and subaccounts of the City and providing for the deposit therein of bond proceeds and other money of the City; and describing the lien of the bonds relative to the lien of the other water system revenue bonds of the City.

Passed October 15, 2001

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ORDINANCE 120548

AN ORDINANCE relating to the municipal water system of The City of Seattle; adopting a system or plan of additions and betterments to and extensions of the existing municipal water system; declaring the estimated costs thereof; providing for the sale and issuance of water system adjustable rate revenue bonds to provide funds with which to pay part of the cost of carrying out that system or plan to provide for a reserve for the bonds if provided by resolution of the City Council and to pay costs of issuance of the bonds; providing for certain terms, conditions, covenants, security and manner of sale of the bonds; authorizing the Director of Finance to conduct a negotiated sale of the bonds subject to City Council approval by resolution the amount, maturities, interest rates or methods of determining interest rates, and other terms of the bonds consistent with this ordinance; creating certain accounts and subaccounts of the City and providing for the deposit therein of bond proceeds and other money of the City; and describing the lien of the bonds relative to the lien of the other water system revenue bonds of the City.

WHEREAS, The City of Seattle (the "City"), owns and operates a municipal water system (the "Municipal Water System"); and

WHEREAS, the City needs to acquire and construct certain additions or betterments to or extensions of the Municipal Water System described in the system or plan previously adopted and defined herein as the Plan of Additions (the "Plan of Additions"); and

WHEREAS, the City, pursuant to Ordinance 116705 and Resolution 28745, issued its Two Hundred Sixty-Five Million Two Hundred Fifty-Five Thousand Dollars (\$265,255,000) original principal amount Water System and Refunding Revenue Bonds, 1993 (the "1993 Bonds"); pursuant to Ordinance 118512 and Resolution 29553, issued its Fifty-Three Million Dollars (\$53,000,000) original principal amount Water System Revenue Bonds, 1997 (the "1997 Bonds"); pursuant to Ordinance 118973 and Resolution 29785, issued its Eighty Million Dollars (\$80,000,000) original principal amount Water System Revenue Bonds, 1998 (the "1998 Bonds"); pursuant to Ordinance 119457 and Resolution 29973, issued its One Hundred Million Dollars (\$100,000,000) original principal amount Water System Revenue Bonds, 1999 (the "1999A Bonds"); and pursuant to Ordinance 119649 and Resolution 30057, issued its original principal amount One Hundred Ten Million Dollars (\$110,000,000) Water System Revenue Bonds, 1999, Series B (the "1999B Bonds"), all of which, together with any other bonds hereafter issued by the City on a parity of lien therewith, are referred to below as the "Prior Lien Bonds"; and

WHEREAS, pursuant to Section 24 of Ordinance 116705, the City reserved the right to issue revenue bonds that are a charge and lien on the Gross Revenue of the Municipal Water System subordinate to the charge or lien of the Prior Lien Bonds; and

WHEREAS, by Ordinance 117689 and Resolution 29191, the City issued its Forty-Five Million Dollars (\$45,000,000) original principal amount Water System Adjustable Rate Revenue Bonds, 1995 (the "1995 Bonds"), subordinate to the lien and charge of the Prior Lien Bonds; and

WHEREAS, by Section 15 of Ordinance 117689, the City reserved the right to issue revenue bonds and other obligations having a charge and lien upon the Net Revenue of the Municipal Water System on a parity with the charge and lien on the 1995 Bonds ("Future Parity Bonds") if the following conditions are met and complied with at the time of issuance of those Future Parity Bonds:

(a) *There shall be no deficiency in the Bond Account and no Event of Default as defined in Section 25 of Ordinance 117689 shall have occurred and be continuing.*

(b) *The Parity Bond Authorizing Ordinance shall provide that all assessments and interest thereon that may be levied in any ULID created for the purpose of paying, in whole or in part, the principal of and interest on those Future Parity Bonds, shall be paid directly into the Bond Account, except for any prepaid assessments permitted by law to be paid into a construction fund or account.*

(c) *The Parity Bond Authorizing Ordinance shall provide for the payment of the principal thereof and interest thereon out of the Bond Account.*

(d) *The Parity Bond Authorizing Ordinance shall provide for the payment of amounts into the Bond Account to meet mandatory redemption requirements applicable to any Term Bonds to be issued and for regular payments to be made for the payment of the principal of such Term Bonds on or before their maturity, or, as an alternative, the mandatory redemption of those Term Bonds prior to their maturity date from money in the Principal and Interest Subaccount.*

(e) *There shall be on file with the City either:*

(1) *a certificate of the Director of Finance demonstrating that during any twelve consecutive calendar months out of the immediately preceding twenty-four (24) calendar months Adjusted Net Revenue was at least equal to the Coverage Requirement for all Parity Bonds plus the Future Parity Bonds proposed to be issued (and assuming that the debt service of the proposed Future Parity Bonds for that twelve-month period was the Average Annual Debt Service for those proposed bonds); or*

(2) *a certificate of both the Director of Finance and the Superintendent of the Municipal Water System (or any officer who*

succeeds to substantially all of the responsibilities of either office) that in their opinion the Adjusted Net Revenue for the five fiscal years next following the earlier of (i) the end of the period during which interest on those Future Parity Bonds is to be capitalized or, if no interest is capitalized, the fiscal year in which the Future Parity Bonds are issued, or (ii) the date on which substantially all new facilities financed with those Future Parity Bonds are expected to commence operations, such Adjusted Net Revenue further adjusted as provided in paragraphs (i) through (iv) below, will be at least equal to the Coverage Requirement. That certificate may take into account the following adjustments:

(i) *Any changes in rates in effect and being charged, or rates expected to be charged in accordance with a program of specific rates, rate levels or increases in overall rate revenue approved by ordinance or resolution;*

(ii) *Net revenue from customers of the Municipal Water System who have become customers during the twelve (12) consecutive month period or thereafter, and their estimate of net revenue from any customers to be connected to the Municipal Water System who have paid the required connection charges, adjusted to reflect one year's net revenue from those customers;*

(iii) *Their estimate of net revenue from customers anticipated to be served by facilities or improvements financed in substantial part by those Future Parity Bonds (or additional Parity Bonds expected to be issued during the five-year period); and*

(iv) *Net revenue from any person, firm, corporation or municipal corporation under any executed contract for water or other utility service, which revenue was not included in the historical Net Revenue of the Municipal Water System.*

If the Future Parity Bonds proposed to be issued are for the sole purpose of refunding outstanding bonds payable from the Bond Account, no such coverage certification shall be required if the Adjusted Annual Debt Service on the Parity Bonds after the issuance of the Future Parity Bonds is not, for any year in which the Parity Bonds being refunded were outstanding, more than five thousand dollars (\$5,000) over the Adjusted Annual Debt Service on the Parity Bonds prior to the issuance of those Future Parity Bonds; and

WHEREAS, the City has determined that it is in the best interest of the City to issue not to exceed Sixty-Five Million Dollars (\$65,000,000) principal amount of its adjustable rate water system revenue bonds with a lien or charge on the Net Revenue on a parity of lien

with the 1995 Bonds and subordinate to the lien or charge of the Prior Lien Bonds to provide the funds to pay part of the cost of carrying out the system or plan of additions to and betterments and extensions of the Municipal Water System specified and adopted by this ordinance, capitalizing or otherwise providing for a reserve for the Bonds if so provided by later resolution of the City Council, and paying the cost of issuance and sale of the Bonds; NOW, THEREFORE,

BE IT ORDAINED BY THE CITY OF SEATTLE, WASHINGTON, AS FOLLOWS:

Section 1. Definitions. As used in this ordinance and for the purposes of this ordinance the following words shall have the following meanings:

"Accreted Value" means:

(1) with respect to any Capital Appreciation Bonds, as of the time of calculation, the sum of the amount representing the initial principal amount of such Capital Appreciation Bonds as set forth in the applicable Parity Bond Authorizing Ordinance plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, or

(2) with respect to original issue discount bonds under the Code, as of the time of calculation, the amount representing the initial public offering price of such original issue discount bonds plus the amount of the discounted principal which has accreted since the date of issue, determined in accordance with the provisions of the applicable Parity Bond Authorizing Ordinance.

"Adjusted Annual Debt Service" for any fiscal year means Annual Debt Service minus (1) an amount equal to ULID Assessments due in that year and not delinquent, (2) an amount equal to earnings from investments in any Series Reserve Subaccounts and (3) Annual Debt Service provided for by Parity Bond proceeds.

"Adjusted Gross Revenue of the Municipal Water System" or "Adjusted Gross Revenue" means Gross Revenue of the Municipal Water System plus withdrawals from the Rate Stabilization Account and minus (1) ULID Assessments, (2) earnings from investments

in any Series Reserve Subaccounts and in any bond or reserve accounts established to provide for debt service on Prior Lien Bonds and (3) deposits into the Rate Stabilization Account.

"Adjusted Net Revenue of the Municipal Water System" or "Adjusted Net Revenue" means Adjusted Gross Revenue less Operation and Maintenance Expenses and less Prior Lien Bond Debt Service.

"Annual Debt Service" means, for any fiscal year of the City, all amounts required to be paid in respect of interest on and principal of Parity Bonds and Payment Agreement Payments in respect of Parity Payment Agreements, subject to the following:

(i) **Debt Service on Term Bonds**. For purposes of calculating debt service on Term Bonds, only the scheduled mandatory redemption amounts payable in respect of principal of Term Bonds shall be taken into account in any fiscal year prior to the Term Bond Maturity Year, and only the principal amount scheduled to remain outstanding after payment of all prior mandatory redemption amounts shall be taken into account in the Term Bond Maturity Year;

(ii) **Interest on Parity Bonds**. For purposes of determining compliance with the Coverage Requirement, the Series Reserve Requirement (unless otherwise provided in a Parity Bond Authorizing Ordinance) and conditions for the issuance of Future Parity Bonds,

(A) **Generally**. Except as otherwise provided by subparagraph (ii)(B) with respect to Variable Interest Rate Bonds and by subparagraph (ii)(C) with respect to Parity Bonds with respect to which a Payment Agreement is in force, interest on any issue of Parity Bonds shall be calculated based on the actual amount of accrued, accreted or otherwise accumulated interest that is payable in respect of that issue taken as a whole, at the rate or rates set forth in the Parity Bond Authorizing Ordinance;

(B) **Interest on Variable Interest Rate Bonds**. The amount of interest deemed to be payable on any issue of Variable Interest Rate Bonds shall be calculated on the assumption that the interest rate on those bonds would be equal to the rate (the "assumed RBI-

based rate") that is ninety percent (90%) of the average RBI during the fiscal quarter preceding the quarter in which the calculation is made;

(C) Interest on Parity Bonds With Respect to Which a Payment Agreement is in Force. Debt service on Parity Bonds with respect to which a Payment Agreement is in force shall be based on the net economic effect on the City expected to be produced by the terms of the Parity Bonds and the terms of the Payment Agreement, including but not limited to the effects that (i) Parity Bonds that would, but for a Payment Agreement, be treated as obligations bearing interest at a Variable Interest Rate instead shall be treated as obligations bearing interest at a fixed interest rate, and (ii) Parity Bonds that would, but for a Payment Agreement, be treated as obligations bearing interest at a fixed interest rate instead shall be treated as obligations bearing interest at a Variable Interest Rate. Accordingly, the amount of interest deemed to be payable on any Parity Bonds with respect to which a Payment Agreement is in force shall be an amount equal to the amount of interest that would be payable at the rate or rates stated in those Parity Bonds plus Payment Agreement Payments minus Payment Agreement Receipts. For the purposes of calculating as nearly as practicable Payment Agreement Receipts and Payment Agreement Payments under a Payment Agreement, the following assumptions shall be made:

(1) Counterparty Obligated to Pay Actual Variable Interest on Variable Interest Rate Bonds. If any Payment Agreement obligates a Qualified Counterparty to make payments to the City based on the actual Variable Interest Rate on Parity Bonds that would, but for the Payment Agreement, be treated as Variable Interest Rate Bonds and obligates the City to make payments to the Qualified Counterparty based on a fixed rate, payments by the City to the Qualified Counterparty shall be assumed to be made at the fixed rate specified by the Payment Agreement and payments by the Qualified Counterparty to the City shall be assumed to be made at the actual Variable Interest Rate on such Parity Bonds, without regard to the occurrence of any event that, under the provisions of the Payment Agreement, would permit the

Qualified Counterparty to make payments on any basis other than the actual Variable Interest Rate on such Parity Bonds, and the Parity Bond Authorizing Ordinance shall set forth a debt service schedule for those Parity Bonds based on that assumption;

(2) Variable Interest Rate Bonds and Payment Agreements Having the Same Variable Rate Component. If both a Payment Agreement and related Parity Bonds that would, but for the Payment Agreement, be treated as Variable Interest Rate Bonds include a variable rate payment component that is required to be calculated on the same basis (including, without limitation, on the basis of the same variable rate index), it shall be assumed that the variable rate payment component payable pursuant to the Payment Agreement is equal in amount to the variable rate interest component payable on those Parity Bonds;

(3) Variable Interest Rate Bonds and Payment Agreements Having Different Variable Rate Interest Components. If a Payment Agreement obligates either the City or the Qualified Counterparty to make payments of a variable rate interest component on a basis that is different (including, without limitation, on a different variable rate index) from the basis that is required to be used to calculate interest on the Parity Bonds that would, but for the Payment Agreement, be treated as Variable Interest Rate Bonds, it shall be assumed:

(a) City Obligated to Make Payments Based on Variable Rate Index. If payments by the City under the Payment Agreement are to be based on a variable rate index and payments by the Qualified Counterparty are to be based on a fixed rate, that payments by the City to the Qualified Counterparty will be based upon an interest rate equal to the assumed RBI-based rate, and that payments by the Qualified Counterparty to the City will be based on the fixed rate specified by the Payment Agreement; and

(b) City Obligated to Make Payments Based on Fixed Rate. If payments by the City under the Payment Agreement are to be based on a fixed rate and payments by the Qualified Counterparty are to be based on a variable rate

index, that payments by the City to the Qualified Counterparty will be based on an interest rate equal to the rate (the "assumed fixed payor rate") that is one hundred and five percent (105%) of the fixed rate specified by the Payment Agreement, and that payments by the Qualified Counterparty to the City will be based on a rate equal to the actual Variable Interest Rate on the Variable Interest Rate Bonds;

(4) Certain Payment Agreements May be Disregarded.

Notwithstanding the provisions of subparagraphs (ii)(C)(1), (2) and (3) of this definition, the City shall not be required to (but may in its discretion) take into account in determining Annual Debt Service the effects of any Payment Agreement that has a term of ten (10) years or less;

(D) Debt Service on Parity Payment Agreements. No additional debt service shall be taken into account with respect to a Parity Payment Agreement for any period during which Payment Agreement Payments on that Parity Payment Agreement are taken into account in determining Annual Debt Service on related Parity Bonds under subparagraph (ii)(C) of this definition. However, for any period during which Payment Agreement Payments are not taken into account in calculating Annual Debt Service on any outstanding Parity Bonds because the Parity Payment Agreement is not then related to any outstanding Parity Bonds, debt service on that Parity Payment Agreement shall be taken into account by assuming:

(1) City Obligated to Make Payments Based on Fixed Rate. If the City is obligated to make Payment Agreement Payments based on a fixed rate and the Qualified Counterparty is obligated to make payments based on a variable rate index, that payments by the City will be based on the assumed fixed payor rate, and that payments by the Qualified Counterparty will be based on a rate equal to the average rate determined by the variable rate index specified by the Parity Payment Agreement during the fiscal quarter preceding the quarter in which the calculation is made, and

(2) City Obligated to Make Payments Based on Variable Rate Index. If the City is obligated to make Payment Agreement Payments based on a variable rate

index and the Qualified Counterparty is obligated to make payment based on a fixed rate, that payments by the City will be based on a rate equal to the average rate determined by the variable rate index specified by the Parity Payment Agreement during the fiscal quarter preceding the quarter in which the calculation is made, and that the Qualified Counterparty will make payments based on the fixed rate specified by the Parity Payment Agreement; and

(E) Balloon Bonds. For purposes of calculating debt service on any Balloon Bonds, it shall be assumed that the principal of those Balloon Bonds, together with interest thereon at a rate equal to the assumed RBI-based rate, will be amortized in equal annual installments over a term of thirty (30) years.

"Average Annual Debt Service" means the sum of the Annual Debt Service for the remaining years to the last scheduled maturity of the applicable issue or issues of Parity Bonds divided by the number of those years.

"Balloon Bonds" means any series of Parity Bonds designated as Balloon Bonds in the applicable Parity Bond Authorizing Ordinance.

"Bond Account" means that special account of the City known as the Second Lien Water Revenue Bond Account created by Ordinance 117689 in the Water Fund of the City for the payment of the principal of, mandatory sinking fund payments, Payment Agreement Payments, premiums (if any), and interest on the Parity Bonds.

"Bond Counsel" means a firm of lawyers nationally recognized and accepted as bond counsel and so employed by the City for any purpose under this ordinance applicable to the use of that term.

"Bond Insurance" means any bond insurance, letter of credit, line of credit, guaranty, surety bond or similar credit enhancement device providing for or securing the payment of all or part of the principal of and interest on any Parity Bonds.

"Bond Insurer" means any provider of Bond Insurance approved by the City Council by ordinance or resolution.

1 **"Bond Register"** means the books or records maintained by the Bond Registrar
2 on which are recorded the names and addresses of the owners of each of the Bonds.

3 **"Bond Registrar"** means the Fiscal Agency or some other entity designated by
4 the Bond Sale Resolution.

5 **"Bond Sale Resolution"** means one or more resolutions of the City Council
6 adopted pursuant to this ordinance and confirming the sale and final terms of the Bonds.

7 **"Bonds"** means the then outstanding Water System Adjustable Rate Revenue
8 Bonds, 2001, authorized to be issued by this ordinance.

9 **"1995 Bonds"** means the then outstanding Water System Adjustable Rate
10 Revenue Bonds, 1995, issued pursuant to Ordinance 117689 and Resolution 29191.

11 **"Capital Appreciation Bonds"** means any Parity Bonds, all or a portion of the
12 interest on which is compounded and accumulated at the rates or in the manner, and on the dates,
13 set forth in the applicable Parity Bond Authorizing Ordinance and is payable only upon
14 redemption or on the maturity date of such Parity Bonds. Parity Bonds that are issued as Capital
15 Appreciation Bonds, but later convert to obligations on which interest is paid periodically, shall
16 be Capital Appreciation Bonds until the conversion date and thereafter shall no longer be Capital
17 Appreciation Bonds, but shall be treated as having a principal amount equal to their Accreted
18 Value on the conversion date.

19 **"CIP"** means the portion or portions relating to the Municipal Water System of
20 the "2001-2007 Capital Improvement Program" of the City as adopted by the City in
21 Ordinance 120165, together with any previously adopted Capital Improvement Program of the
22 City, as that Capital Improvement Program may be amended, updated, supplemented or replaced
23 from time to time.

24 **"City"** means The City of Seattle, Washington.

25 **"City Clerk"** means the City Clerk of the City, or any other officer who succeeds
26 to substantially all of the responsibilities of that office specified in this ordinance.

1 **"Code"** means the Internal Revenue Code of 1986, as amended, and applicable
2 rules and regulations promulgated thereunder.

3 **"Construction Account"** means the Water System Construction Subaccount,
4 2002, created by Section 10 of this ordinance in the Water System Construction Account, which
5 account was previously created in the Water Fund.

6 **"Contract Resource Obligation"** means an obligation of the City, designated as
7 a Contract Resource Obligation and entered into pursuant to Section 27 of Ordinance 116705
8 and/or Section 18 of this ordinance, to make payments for water supply, transmission or other
9 commodity or service to another person or entity (including without limitation a separate utility
10 system created pursuant to Section 26 of Ordinance 116705 and Section 17 of this ordinance).

11 **"Coverage Requirement"** in any fiscal year of the City means an amount of
12 Adjusted Net Revenue of the Municipal Water System equal to at least 1.25 times the Adjusted
13 Annual Debt Service that year on all Parity Bonds.

14 **"Director of Finance"** means the director of the Department of Finance of the
15 City, and any successor to substantially the same duties.

16 **"Fiscal Agency"** means either of the fiscal agencies of the State of Washington
17 located in Seattle, Washington, and New York, New York, or any other paying agent/registrar of
18 the City, as the same may be designated by the Bond Sale Resolution or otherwise designated
19 from time to time.

20 **"Future Parity Bonds"** means all revenue bonds and other obligations (including
21 Parity Payment Agreements) of the City issued or entered into after the date of the issuance of the
22 Bonds and then outstanding, the payment of which constitutes a charge and lien on the Net
23 Revenue of the Municipal Water System equal in rank with the charge and lien upon such
24 revenue required to be paid into the Bond Account to pay and secure the payment of the principal
25 of and interest on the Parity Bonds, including the Bonds.

1 **"Government Obligations"** means those government obligations defined by
2 RCW 39.53.010(9) as it now reads or hereafter may be amended or replaced.

3 **"Gross Revenue of the Municipal Water System" or "Gross Revenue"** means
4 in any fiscal year of the City all of the revenues of the Municipal Water System, including but not
5 limited to revenue from the sale or transmission of water; the sale, lease or furnishing of other
6 commodities, services, properties or facilities; the imposition of connection, capital improvement
7 or other charges; ULID Assessments; net receipts from Parity Payment Agreements; and earnings
8 from the investment of money in the Water Fund. However, Gross Revenue shall not include
9 earnings of a separate utility system pursuant to Section 26 of Ordinance 116705 and Section 17
10 of this ordinance; principal proceeds of Prior Lien Bonds or Parity Bonds or other borrowings; or
11 earnings or proceeds from any investments in a trust, defeasance or escrow fund created to
12 defease or refund Municipal Water System obligations (until commingled with other earnings
13 and revenues of the Municipal Water System defined as Gross Revenue) or held in a special
14 account for the purpose of paying a rebate to the United States Government under the Code.

15 **"Independent Consulting Engineer"** means either (1) an independent licensed
16 professional engineer experienced in the design, construction or operation of municipal utilities
17 of comparable size and character to the Municipal Water System, or (2) an independent certified
18 public accountant or other professional consultant experienced in the development of rates and
19 charges for municipal utilities of comparable size and character to the Municipal Water System.

20 **"Maximum Annual Debt Service"** means at the time of calculation, the
21 maximum amount of Annual Debt Service that will mature or come due in the current year or
22 any future year on the Parity Bonds.

23 **"Municipal Water System"** means the water system of the City as it now exists,
24 and all additions thereto and betterments and extensions thereof at any time made for so long as
25 any of the Parity Bonds are outstanding. The Municipal Water System shall not include any
26 water supply or service or other facilities that may be created, acquired or constructed by the City

1 as a separate utility system as provided in Section 26 of Ordinance 116705 and Section 17 of this
2 ordinance.

3 Upon the maturity, redemption and defeasance of all of the then outstanding 1995
4 Bonds, "Municipal Water System" shall be defined as follows:

5 *"Municipal Water System" means the water system of the City as it now exists,*
6 *and all additions thereto and betterments and extensions thereof at any time made,*
7 *together with any utility systems of the City hereinafter combined with the*
8 *Municipal Water System. The Municipal Water System shall not include any*
9 *water supply or other utility system service or other facilities that may be created,*
10 *acquired or constructed by the City as a separate utility system as provided in*
11 *Section 22 of Ordinance 119649 and Section 17 of this ordinance.*

12 **"Net Revenue of the Municipal Water System" or "Net Revenue"** means the
13 Gross Revenue less Operation and Maintenance Expenses.

14 **"Operation and Maintenance Expenses"** means all expenses incurred by the
15 City in causing the Municipal Water System of the City to be operated and maintained in good
16 repair, working order and condition, including without limitation: deposits, premiums,
17 assessments or other payments for insurance, if any, on the Municipal Water System; payments
18 into pension funds; State-imposed taxes; amounts due under contract resource obligations
19 included as Operation and Maintenance Expenses pursuant to Section 27 of Ordinance 116705 or
20 Section 18 of this ordinance (but only at the times described in Section 27 of Ordinance 116705
21 and Section 18 of this ordinance, respectively); payments made to any other person or entity for
22 the receipt of water supply or transmission or other commodity or service; and payments with
23 respect to any other expenses of the Municipal Water System that are properly treated as
24 operation and maintenance expenses under generally accepted accounting principles applicable to
25 municipal corporations. Operation and Maintenance Expenses does not include any depreciation
26 or taxes levied or imposed by the City, or payments to the City in lieu of taxes, or capital
additions or capital replacements to the Municipal Water System.

"Outstanding Parity Bonds" means the then outstanding 1995 Bonds.

1 **"Parity Bonds"** means the Outstanding Parity Bonds, the Bonds and any Future
2 Parity Bonds.

3 **"Parity Bond Authorizing Ordinance"** means the ordinance and/or resolution of
4 the City that authorizes the issuance and sale and establishes the terms of a particular issue of
5 Parity Bonds and other matters relating to the same plan of finance.

6 **"Parity Payment Agreement"** means a Payment Agreement under which the
7 City's payment obligations are expressly stated to constitute a charge and lien on the Net
8 Revenue of the Municipal Water System equal in rank with the charge and lien upon such
9 revenue required to be paid into the Bond Account to pay and secure the payment of the principal
10 of, premium (if any), Payment Agreement Payments and interest on Parity Bonds.

11 *Upon the maturity, redemption or defeasance of all of the then outstanding 1995*
12 *Bonds, "Parity Payment Agreement" shall be defined as follows:*

13 *"Parity Payment Agreement" means a Payment Agreement under which the*
14 *City's payment obligations are expressly stated to constitute a charge and lien*
15 *on the Net Revenue of the Municipal Water System equal in rank with the*
16 *charge and lien upon such revenue required to be paid into the Bond Account*
17 *to pay interest on Parity Bonds.*

18 **"Payment Agreement"** means a written agreement, for the purpose of managing
19 or reducing the City's exposure to fluctuations or levels of interest rates or for other interest rate,
20 investment, asset or liability management purposes, entered into on either a current or forward
21 basis by the City and a Qualified Counterparty as authorized by any applicable laws of the State
22 in connection with, or incidental to, the issuance, incurring or carrying of particular bonds, notes,
23 bond anticipation notes, commercial paper, or other obligations for borrowed money, or lease,
24 installment purchase or other similar financing agreements or certificates of participation therein,
25 that provides for an exchange of payments based on interest rates, ceilings or floors on such
26 payments, options on such payments, or any combination thereof or any similar device.

1 **"Payment Agreement Payments"** means the amounts periodically required to be
2 paid by the City to the Qualified Counterparty pursuant to a Payment Agreement.

3 **"Payment Agreement Receipts"** means the amounts periodically required to be
4 paid by the Qualified Counterparty to the City pursuant to a Payment Agreement.

5 **"Plan of Additions"** means the system or plan of additions to and betterments
6 and extensions of the Municipal Water System described in Section 2 of this ordinance.

7 **"Principal and Interest Subaccount"** means the account of that name created in
8 the Bond Account.

9 **"Prior Lien Bond Debt Service"** means, for any fiscal year of the City,
10 "Adjusted Annual Debt Service" with respect to the Prior Lien Bonds, as that term is defined in
11 Ordinance 116705 of the City.

12 **"Prior Lien Bonds"** means the City's then-outstanding Water System and
13 Refunding Revenue Bonds, 1993, Water System Revenue Bonds, 1997, Water System Revenue
14 Bonds, 1998, Water System Revenue Bonds, 1999 and Water System Revenue Bonds, 1999,
15 Series B, and any other bonds hereafter issued by the City on a parity of lien therewith.

16 **"Qualified Counterparty"** means a party (other than the City or a party related to
17 the City) who is the other party to a Payment Agreement and (1)(a) whose senior debt obligations
18 are rated in one of the three highest rating categories of each of the Rating Agencies (without
19 regard to any gradations within a rating category) or guaranteed by an entity so rated, or (b)
20 whose obligations under the Payment Agreement are guaranteed for the entire term of the
21 Payment Agreement by a bond insurer or other institution which has been assigned a credit rating
22 in one of the two highest rating categories of each of the Rating Agencies, and (2) who is
23 otherwise qualified to act as the other party to a Payment Agreement under any applicable laws
24 of the State.

25 **"Rate Stabilization Account"** means the account of that name created in the
26 Water Fund by Section 19 of Ordinance 116705 for the purposes described in that ordinance.

1 **"Rating Agencies"** means Moody's Investors Service, Inc., and Standard &
2 Poor's Corporation, a Division of The McGraw-Hill Companies, Inc., and their successors, and
3 any other nationally-recognized securities rating agency or agencies rating Parity Bonds at the
4 request of the City.

5 **"RBI"** means the Bond Buyer Revenue Bond Index or comparable index, or, if no
6 comparable index can be obtained, eighty percent (80%) of the interest rate for actively traded
7 thirty (30) year United States Treasury obligations.

8 **"Reserve Insurance"** means any bond insurance, letter of credit, guaranty, surety
9 bond or similar credit enhancement device obtained by the City equal to part or all of the Series
10 Reserve Requirement for any Parity Bonds which is issued by an institution which has been
11 assigned a credit rating at the time of issuance of the device in one of the two highest rating
12 categories of each of the Rating Agencies.

13 **"Series Reserve Requirement"** means an amount calculated in accordance with
14 any ordinance or resolution providing a reserve for the series of Parity Bonds authorized or
15 issued pursuant to that ordinance or resolution (including without limitation the Bond Sale
16 Resolution).

17 **"Series Reserve Subaccount"** means an account created in the Bond Account for
18 the purpose of securing the payment of the principal of and interest on any series of Parity Bonds
19 for which a reserve has been provided in the ordinance or resolution authorizing or providing
20 terms and conditions relating to that series of Parity Bonds (including without limitation the
21 Bond Sale Resolution).

22 **"State"** means the State of Washington.

23 **"State Auditor"** means the office of the Auditor of the State or such other
24 department or office of the State authorized and directed by State law to make audits.

25 **"Term Bond Maturity Year"** means any calendar year in which Term Bonds are
26 scheduled to mature.

1 **"Term Bonds"** means those Parity Bonds designated as such in the applicable
2 Parity Bond Authorizing Ordinance.

3 **"ULID"** means a utility local improvement district.

4 **"ULID Assessments"** means all assessments levied and collected in a ULID of
5 the City created for the acquisition or construction of additions to and betterments and extensions
6 of the Municipal Water System if (and only if) those assessments are pledged to be paid into the
7 Bond Account, not including any prepaid assessments paid into a construction fund or account.
8 ULID Assessments shall include installments thereof and any interest or penalties thereon.

9 **"Variable Interest Rate"** means any variable interest rate or rates to be borne by
10 any Parity Bonds. The method of computing such a variable interest rate shall be as specified in
11 the applicable Parity Bond Authorizing Ordinance (including a bond sale resolution), which
12 ordinance or resolution also shall specify either (1) the particular period or periods of time or
13 manner of determining such period or periods of time for which each value of such variable
14 interest rate shall remain in effect or (2) the time or times upon which any change in such
15 variable interest rate shall become effective. A Variable Interest Rate may, without limitation, be
16 based on the interest rate on certain bonds or may be based on interest rate, currency, commodity
17 or other indexes.

18 **"Variable Interest Rate Bonds"** means, for any period of time, any Parity Bonds
19 that bear a Variable Interest Rate during that period, except that Parity Bonds shall not be treated
20 as Variable Interest Rate Bonds if the net economic effect of interest rates on particular Parity
21 Bonds of an issue and interest rates on other Parity Bonds of the same issue, as set forth in the
22 applicable Parity Bond Authorizing Ordinance, or the net economic effect of a Payment
23 Agreement with respect to particular Parity Bonds, in either case is to produce obligations that
24 bear interest at a fixed interest rate; and Parity Bonds with respect to which a Payment
25 Agreement is in force shall be treated as Variable Interest Rate Bonds if the net economic effect
26 of the Payment Agreement is to produce obligations that bear interest at a Variable Interest Rate.

1 **"Water Fund"** means the fund of that name into which is paid the Gross
2 Revenue of the Municipal Water System.

3 **"Water Supply Plan"** means the long range water supply plan known as the
4 Updated Seattle Comprehensive Regional Water Plan, adopted by the City in Ordinance 11689,
5 updated and approved as of April 2001, as that Water Supply Plan may be amended, updated,
6 supplemented or replaced from time to time.

7 **Section 2. Plan of Additions.** The CIP and the Water Supply Plan constitute a system
8 or plan of additions to and betterments and extensions of the Municipal Water System (the "Plan
9 of Additions" and each element thereof an "Addition"). The City, in its ordinance authorizing
10 the issuance and sale of Water System Revenue Bonds, 2001, passed on the same date as this
11 ordinance, specified, adopted and ordered to be carried out the Plan of Additions as generally
12 provided for in the Water Supply Plan and the CIP.

13 **Section 3. Authorization and Description of Bonds.** For the purpose of providing all
14 or a part of the money required to (1) pay part of the cost of carrying out the Plan of Additions;
15 (2) provide for a reserve for the Bonds if provided in the Bond Sale Resolution; and (3) pay the
16 costs of issuance of the Bonds, the City shall issue the Bonds in the principal amount of not to
17 exceed Sixty-Five Million Dollars (\$65,000,000). The Bonds shall be designated Water System
18 Adjustable Rate Revenue Bonds, 2002, or such other designation as provided in the Bond Sale
19 Resolution; shall be in the denomination of five thousand dollars (\$5,000) or any integral
20 multiple thereof within a single maturity or such other denomination within a maturity provided
21 by the Bond Sale Resolution; may be issued in one or more series; shall be Balloon Bonds if so
22 designated in the Bond Sale Resolution; shall be numbered separately, in the manner and with
23 any additional designation as the Bond Registrar deems necessary for the purpose of
24 identification; shall be dated such date or dates; shall be in such form or forms (including book
25 entry form); shall bear interest at such rate or rates (which shall be computed in such manner)
26 except that the interest rate during the initial interest rate period for the initial series of Bonds

1 shall not exceed a weighted average of eight percent (8%) per annum; and shall be payable on
2 such date or dates and in such manner as may be specified by the Bond Sale Resolution. The
3 Bonds shall mature, and shall be subject to tender or redemption, at such time or times and at
4 such price or prices, in such amounts and subject to such terms, conditions and covenants, to be
5 specified in the Bond Sale Resolution, except that the final maturity of the Bonds shall not be
6 later than December 31, 2032. The Director of Finance may designate Term Bonds with
7 mandatory redemption amounts as he deems necessary or advisable, all to be provided by the
8 Bond Sale Resolution. Interest on the Bonds initially shall be at a Variable Interest Rate,
9 adjusted periodically, determined in the manner and payable at the times established by the Bond
10 Sale Resolution. The Bond Sale Resolution may include terms permitting interest on the Bonds
11 to be converted from one short-term variable rate mode or modes to other short-term variable rate
12 mode or modes or to a long-term rate or rates, from a long-term rate or rates to other long-term
13 rate or rates or to a short-term variable rate mode or modes, or from any of those modes or rates
14 to a fixed rate or rates to the maturity of the Bonds.

15 **Section 4. Bond Sale Resolution.** The City Council may adopt the Bond Sale
16 Resolution and in that resolution may provide for the matters described in this ordinance and
17 such other matters that the City Council deems necessary and appropriate to carry out the
18 purposes of this ordinance.

19 The Bond Sale Resolution may provide for Bond Insurance, a letter of credit, a line of
20 credit and/or Reserve Insurance, and conditions or covenants relating thereto, including
21 additional terms, conditions and covenants relating to the Bonds that are required by the Bond
22 Insurer and are consistent with the provisions of this ordinance, including but not limited to
23 restrictions on investments and requirements of notice to and consent of the Bond Insurer.

24 The Bond Sale Resolution may approve and authorize the execution and delivery on
25 behalf of the City of any agreements consistent with the provisions of this ordinance for which
26 the City's approval is necessary or to which the City is a party and that are related or incidental to

the initial issuance and sale of the Bonds, the initial establishment and any redetermination of the interest rate or rates on the Bonds, and any tender, purchase, remarketing or redemption of the Bonds, including but not limited to tender agent agreements, securities depository agreements, agreements with Bond Insurers, remarketing agreements, market agent agreements, auction agent agreements, Payment Agreements and similar agreements for such purposes.

The City Council also shall determine and specify by the Bond Sale Resolution the amount, if any, from the proceeds of or accrued interest on the Bonds to be deposited into the accounts and subaccounts established by this ordinance or by other applicable ordinance or resolution.

Section 5. Registration and Transfer or Exchange of Bonds. The Bonds shall be issued only in registered form as to both principal and interest and recorded on the Bond Register, which at all times shall be open to inspection by the City. The Bond Register shall contain the name and mailing address of the owner of each Bond and the principal amount and number of each of the Bonds held by each owner.

Bonds surrendered to the Bond Registrar may be exchanged for Bonds in any authorized denomination of an equal aggregate principal amount and of the same interest rate and maturity. Bonds may be transferred only if endorsed in the manner provided thereon and surrendered to the Bond Registrar. Any exchange or transfer shall be without cost to the owner or transferee. The Bond Registrar shall not be obligated to exchange or transfer any Bond other than on the dates permitted by the Bond Sale Resolution.

Notwithstanding the foregoing provisions of this Section 5, the Bond Sale Resolution may provide that the Bonds shall be held in fully immobilized form, registered from time to time in the name of a qualified depository trust company, for such period or periods as may be specified in the Bond Sale Resolution, and in that event, the Bond Sale Resolution shall provide for the terms, conditions and covenants relating thereto.

Section 6. Mutilated, Lost, Stolen and Destroyed Bonds. In case any Bonds issued hereunder shall become mutilated or be destroyed, stolen or lost, the City shall, if not then prohibited by law, cause to be executed and delivered a new Bond of like amount, interest rate, maturity date, series and tenor in exchange and substitution for and upon cancellation of such mutilated Bonds, or in lieu of and in substitution for such destroyed, stolen or lost Bonds, upon payment by the owner thereof of the reasonable expenses and charges of the City and the Bond Registrar in connection therewith, and in the case of a Bond destroyed, stolen or lost, the filing with the Bond Registrar of evidence satisfactory to it that such Bond was destroyed, stolen or lost, and of the ownership thereof, and furnishing the City and the Bond Registrar with indemnity satisfactory to each of them. If the mutilated, destroyed, stolen or lost Bond already has matured or been called for redemption in accordance with its terms it shall not be necessary to issue a new Bond prior to payment. If the provisions of State law at any time differ from the provisions of this Section 6 with respect to the requirements or procedures for replacing or otherwise handling mutilated, lost, stolen or destroyed Bonds, then the provisions of State law shall prevail.

Section 7. Form and Execution of Bonds. The Bonds shall be printed, lithographed, typewritten or photocopied on good bond paper in a form consistent with the provisions of this ordinance, the Bond Sale Resolution and State law, shall be signed by the Mayor and Director of Finance, either or both of whose signatures may be manual or in facsimile, and the seal of the City or a facsimile reproduction thereof shall be impressed or printed thereon.

Only Bonds bearing a Certificate of Authentication in the following form, manually signed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this ordinance:

CERTIFICATE OF AUTHENTICATION

This bond is one of the fully registered The City of Seattle, Washington, Water System Adjustable Rate Revenue Bonds, 2002, described in the Bond Ordinance.

WASHINGTON STATE FISCAL
AGENCY
Bond Registrar

By _____
Authorized Signer

The authorized signing of a Certificate of Authentication shall be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered and are entitled to the benefits of this ordinance.

If any officer whose manual or facsimile signature appears on the Bonds ceases to be an officer of the City authorized to sign bonds before the Bonds bearing his or her manual or facsimile signature are authenticated or delivered by the Bond Registrar or issued by the City, those Bonds nevertheless may be authenticated, delivered and issued and, when authenticated, issued and delivered, shall be as binding on the City as though that person had continued to be an officer of the City authorized to sign bonds. Any Bond also may be signed on behalf of the City by any person who, on the actual date of signing of the Bond, is an officer of the City authorized to sign bonds, although he or she did not hold the required office on the date of issuance of the Bonds.

Notwithstanding the foregoing provision of this Section 7, the Bond Sale Resolution may specify different provisions relating to the form and execution of the Bonds, so long as those different provisions are consistent with the purposes of this ordinance.

Section 8. Bond Registrar; Appointment of Other Agents. The Bond Registrar shall keep, or cause to be kept, at its principal corporate trust office, sufficient books for the

registration and transfer of the Bonds which shall at all times be open to inspection by the City. The Bond Registrar is authorized, on behalf of the City, to authenticate and deliver Bonds transferred or exchanged in accordance with the provisions of the Bonds and this ordinance, to serve as the City's paying agent for the Bonds and to carry out all of the Bond Registrar's powers and duties under this ordinance and Seattle Municipal Code Chapter 5.10 establishing a system of registration for the City's bonds and obligations, as that chapter now exists or may be hereafter amended.

The Bond Registrar shall be responsible for its representations contained in the Bond Registrar's Certificate of Authentication on the Bonds. The Bond Registrar may become the owner of Bonds with the same rights it would have if it were not the Bond Registrar and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as members of, or in any other capacity with respect to, any committee formed to protect the rights of Bond owners.

The City may in the Bond Sale Resolution appoint or provide for the appointment by the Director of Finance of a tender agent or agents, a paying agent or agents, a remarketing agent or agents and one or more bank or other financial institution furnishing liquidity and/or credit support for the Bonds, any or all of which may, but need not, be the Bond Registrar. The Bond Sale Resolution shall authorize contracts respecting the duties of those agents, the bank and the City with respect to the Bonds, and shall authorize the appropriate officers of the City to execute those contracts.

Section 9. Bond Account. Ordinance 117689 created the Bond Account, known as the Second Lien Water Revenue Bond Account, in the Water Fund and further divided the Bond Account into the Principal and Interest Subaccount and, with respect to any series of Parity Bonds for which a Series Reserve Requirement has been provided, a Series Reserve Subaccount. So long as any Parity Bonds are outstanding, the City shall set aside and pay into the Bond Account all ULID Assessments on their collection (except for ULID Assessments deposited in a

construction account) and, out of the Net Revenue, certain fixed amounts without regard to any fixed proportion, namely:

(a) Into the Principal and Interest Subaccount on or before each interest or principal and interest payment date of any Parity Bonds at least an amount which, together with other money on deposit therein, will be sufficient to pay the interest, or principal and interest, to become due and payable on the Parity Bonds on that payment date, including any Parity Bonds subject to mandatory redemption on that date, and net payments due on Parity Payment Agreements; and

(b) Into any Series Reserve Subaccount, such amounts at such times as may be required in the ordinance or resolution (including without limitation the Bond Sale Resolution) authorizing or providing the terms, conditions and covenants relating to the series of Parity Bonds for which a Series Reserve Requirement shall have been provided. The City may provide all or any part of a Series Reserve Requirement through Reserve Insurance, and the amount available to be drawn upon under that Reserve Insurance shall be credited against the Series Reserve Requirement subject to such terms and conditions as may be provided in the ordinance or resolution authorizing or providing the terms, conditions and covenants relating to the series of Parity Bonds for which a Series Reserve Requirement shall have been provided.

All money in the Bond Account may be kept in cash or invested in legal investments maturing, for investments in the Principal and Interest Subaccount, not later than the dates when, in the reasonable judgement of the Director of Finance, such funds are required for the payment of principal of and/or interest on the Parity Bonds and, for investments in a Series Reserve Subaccount, maturing (or subject to redemption, or repurchase and redemption, at the option of the City) on a date or dates provided in the ordinance or resolution authorizing or providing the terms, conditions and covenants relating to a series of Parity Bonds for which a Series Reserve Requirement has been provided.

Earnings from investments in the Principal and Interest Subaccount shall be deposited in that account. Earnings from investments in a Series Reserve Subaccount shall be deposited as may be directed by the ordinance or bond sale resolution providing for a Series Reserve Requirement. Notwithstanding the provisions for the deposit of earnings, any earnings that are

subject to federal arbitrage rebate requirements may be withdrawn from the Bond Account for deposit into a separate fund or account created for the purpose of compliance with those rebate requirements.

The City may create sinking fund accounts or other accounts in the Bond Account, including but not limited to interest reserve accounts, for the payment or securing the payment of Parity Bonds as long as the maintenance of such accounts does not conflict with the rights of the owners of such Parity Bonds.

Section 10. Construction Account. There has been created in the Water Fund an account known as the Water System Construction Account, within which account there is created a subaccount to be known as the Water System Construction Subaccount, 2002 (the "Construction Account"). The principal proceeds of the sale of the Bonds remaining after the deposit of accrued interest on the Bonds, if any, into the Principal and Interest Subaccount and the deposit of any proceeds as determined by the Bond Sale Resolution into a Series Reserve Subaccount (if any), shall be deposited into the Construction Account to be used for the purpose of paying part of the costs of carrying out the Plan of Additions and to pay for the costs of issuance of the Bonds. Until needed to pay such costs, the City may invest principal proceeds and interest thereon temporarily in any legal investment, and the investment earnings may, as determined by the Director of Finance, be retained in the Construction Account and be spent for the purposes of that fund or deposited in the Bond Account.

Section 11. Findings as to Sufficiency of Gross Revenue, Due Regard and Satisfaction of Parity Conditions. The City finds and determines that the Gross Revenue and benefits to be derived from the operation and maintenance of the Municipal Water System of the City at the rates to be charged for water and other services and commodities from the Municipal Water System will be more than sufficient to meet all Operation and Maintenance Expenses, to meet all requirements with respect to the payment of principal of and interest on and providing the reserve requirements for the Prior Lien Bonds, and to permit the setting aside into the Bond

Account out of that Gross Revenue of amounts sufficient to pay the principal of and interest on the Outstanding Parity Bonds and the Bonds and any mandatory redemption requirements when due. The City further declares that in creating the Bond Account and in fixing the amounts to be paid into the Bond Account it has exercised due regard for Operation and Maintenance Expenses, and the City has not bound and obligated itself to set aside and pay into the Bond Account a greater amount or proportion of the Gross Revenue than in the judgment of the City will be available over and above the Operation and Maintenance Expenses, the amounts necessary to provide for the payment of Prior Lien Bond Debt Service and to provide the reserve requirement for the Prior Lien Bonds, and pay debt service and provide the reserve requirement, if any, on the Outstanding Parity Bonds.

The City finds and declares that no default exists in the payment of the principal of and interest on the Outstanding Parity Bonds, and that the amounts required to have been paid into the Bond Account for the Outstanding Parity Bonds have been paid and maintained as required therein, and that all other conditions for the issuance of the Bonds as Future Parity Bonds under Section 15 of Ordinance 117689 will have been met and satisfied before the Bonds are delivered to the original purchaser[s] thereof.

Section 12. Pledge of Net Revenue and Lien Position. The lien of the Bonds on the Net Revenue of the Municipal Water System shall be subordinate to the lien on such Net Revenue of the Prior Lien Bonds, and shall be on a parity of lien on such Net Revenue with the Outstanding Parity Bonds and any Future Parity Bonds that may be issued pursuant to [Section 15 of Ordinance 117689 and] Section 15 of this ordinance. Upon satisfaction of the conditions for parity bonds set forth in the ordinances under which the Prior Lien Bonds were and shall have been issued, if the interest on the Bonds is converted to a fixed rate or rates prior to maturity, then the Bonds so converted shall be on a parity of lien on the Net Revenue of the Municipal Water System with the Prior Lien Bonds, without regard to date of issuance or authorization and without preference or priority of right or lien with respect to participation of special funds in

amounts from that Net Revenue for payment thereof. The Bonds also may be made to be on a parity of lien on the Net Revenue with the Prior Lien Bonds at any other time if the City so determines and upon the satisfaction of those conditions.

The City reserves the right to issue (1) additional Prior Lien Bonds subject to the requirements for their issuance under the ordinances authorizing the issuance of Prior Lien Bonds; (2) additional Parity Bonds subject to the requirements of [Section 15 of Ordinance 117689 and] Section 15 of this ordinance; and (3) bonds and other obligations with a lien on the Net Revenue of the Municipal Water System subordinate to the lien of the Prior Lien Bonds and the Parity Bonds on that Net Revenue. The City may pledge the payment of utility local improvement district assessments into a bond redemption fund created for the payment of the principal of and interest on Prior Lien Bonds and also may pledge utility local improvement district assessments into a bond redemption fund created for the payment of principal of and interest on junior lien bonds as long as such utility local improvement district assessments are levied for improvements constructed from the proceeds of those junior lien bonds.

Subject to the lien and charge on Net Revenue of the Prior Lien Bonds, the Net Revenue of the Municipal Water System and all money and investments held in the Bond Account, the Rate Stabilization Account and the Construction Account (except money and investments held in a separate fund or account created for the purpose of compliance with rebate requirements under the Code), is pledged to the payment of the Parity Bonds and to make payments into any Series Reserve Subaccount that may be required by the Bond Sale Resolution. This pledge shall constitute a lien and charge upon the Net Revenue prior and superior to any other charges whatsoever, other than the lien and charge of the Prior Lien Bonds.

The Bonds are not a general obligation of the City or the State or any political subdivision of the State.

Section 13. Covenants. The City covenants and agrees with the owner of each Bond at any time outstanding, as follows:

(a) **Operation and Maintenance.** It will at all times maintain, preserve and keep the properties of the Municipal Water System in good repair, working order and condition, will make all necessary and proper additions, betterments, renewals and repairs thereto, and improvements, replacements and extensions thereof, and will at all times operate or cause to be operated the properties of the Municipal Water System and the business in connection therewith in an efficient manner and at a reasonable cost.

(b) **Establishment and Collection of Rates and Charges.** It will establish, maintain and collect rates and charges for services and facilities provided by the Municipal Water System which will be fair and equitable, and will adjust those rates and charges from time to time so that:

(1) The Gross Revenue will be sufficient to (i) pay all Operation and Maintenance Expenses, (ii) to pay when due the principal of and interest on the Prior Lien Bonds and to provide for the reserve requirement therefor, (iii) pay when due all amounts that the City is obligated to pay into the Bond Account and the subaccounts therein, and (iv) pay all taxes, assessments or other governmental charges lawfully imposed on the Municipal Water System or the revenue therefrom or payments in lieu thereof and any and all other amounts which the City may now or hereafter become obligated to pay from the Gross Revenue by law or contract; and

(2) The Adjusted Net Revenue of the Municipal Water System in each fiscal year will be at least equal to the Coverage Requirement; and

(3) Except to aid the poor or infirm and for fire-fighting purposes, it will not furnish or supply or permit the furnishing or supplying of any service or facility in connection with the operation of the Municipal Water System free of charge to any person, firm or corporation, public or private.

The failure of the City to comply with subparagraphs (1) and (2) of this paragraph 13(b) shall not be an Event of Default as defined in Section 25 of this ordinance if the City promptly retains an Independent Consulting Engineer to recommend to the City Council adjustments in the rates of the Municipal Water System necessary to meet the requirements of those subparagraphs and if the City Council adopts the recommended modifications within one hundred eighty (180) days of the date the failure became known to the City Council.

(c) **Sale, Transfer or Disposition of the Municipal Water System.** It will sell, transfer or otherwise dispose of any of the works, plant, properties, facilities or other part of the Municipal Water System or any real or personal

property comprising a part of the Municipal Water System only upon approval by ordinance and only consistent with one or more of the following:

(1) The City in its discretion may carry out such a sale, transfer or disposition (each, as used in this subparagraph, a "transfer") if the facilities or property transferred are not material to the operation of the Municipal Water System, or shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the Municipal Water System or are no longer necessary, material or useful to the operation of the Municipal Water System; or

(2) The City in its discretion may carry out such a transfer if the aggregate depreciated cost value of the facilities or property being transferred under this subparagraph (2) in any fiscal year comprises no more than three percent (3%) of the total assets of the Municipal Water System; or

(3) The City in its discretion may carry out such a transfer if the City receives from the transferee an amount equal to the fair market value of the portion of the Municipal Water System transferred. As used in this subparagraph, "fair market value" means the most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, the willing buyer and willing seller each acting prudently and knowledgeably and assuming that the price is not affected by coercion or undue stimulus. The proceeds of the transfer shall be used (i) to promptly redeem, or irrevocably set aside for the redemption of, Prior Lien Bonds, or Prior Lien Bonds and Parity Bonds, all in accordance with the ordinances authorizing those bonds and/or (ii) to provide for part of the cost of additions to and betterments and extensions of the Municipal Water System. Before any such transfer under this subparagraph (3), the City must obtain a certificate of an Independent Consulting Engineer to the effect that in his or her professional opinion, upon such transfer and the use of proceeds of the transfer as proposed by the City, the remaining Municipal Water System will retain its operational integrity and the Adjusted Net Revenue of the Municipal Water System will be at least equal to the Coverage Requirement during the five fiscal years following the fiscal year in which the transfer is to occur, taking into account, (w) the reduction in revenue resulting from the transfer; (x) the use of any proceeds of the transfer for the redemption of Prior Lien Bonds, or Prior Lien Bonds and Parity Bonds, all in accordance with the ordinances authorizing those bonds, (y) the Independent Consulting Engineer's estimate of revenue from customers anticipated to be served by any additions to and betterments and extensions of the Municipal Water System financed in part by the proposed portion of the proceeds of the

transfer, and (z) any other adjustment permitted in the preparation of a certificate under Section 15(e) of this ordinance. Before such a transfer, the City also must obtain confirmation from each of the Rating Agencies to the effect that the rating then in effect will not be reduced or withdrawn upon such transfer.

The amount required to be paid to the City may be reduced by any "equity credits" or similar amounts based on prior capital contributions or other payments to the City which, under any contract between the City and the transferee, are allowed as a setoff against the transfer price that would otherwise be payable to the City.

(d) **Liens Upon the Municipal Water System.** Except as otherwise provided in this ordinance, it will not at any time create or permit to accrue or to exist any lien or other encumbrance or indebtedness upon the Gross Revenue or any part thereof, prior or superior to the lien thereon for the payment of the Parity Bonds, and will pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Gross Revenue or any part thereof, prior or superior to, or on a parity with, the lien of the Parity Bonds, or which might impair the security of the Parity Bonds.

(e) **Books and Accounts.** It will keep proper books, records and accounts with respect to the operations, income and expenditures of the Municipal Water System in accordance with generally accepted accounting practices relating to municipal utilities and any applicable rules and regulations prescribed by the State, and will cause those books, records and accounts to be audited on an annual basis by the State Auditor (or, if such audit is not made by the State Auditor within two hundred seventy (270) days after the close of any fiscal year of the City, by a certified public accountant selected by the City). It will prepare annual financial and operating statements as soon as practicable after the close of each fiscal year showing in reasonable detail the financial condition of the Municipal Water System as of the close of the previous year, and the income and expenses for such year, including the amounts paid into the Bond Account and into any and all special funds or accounts created pursuant to the provisions of this ordinance, the status of all funds and accounts as of the end of such year, and the amounts expended for maintenance, renewals, replacements and capital additions to the Municipal Water System. Such statements shall be sent to the owner of any Parity Bonds upon written request therefor being made to the City. The City may charge a reasonable cost for providing such financial statements.

(f) **Collection of Delinquent Accounts.** On at least an annual basis, it will determine all accounts that are delinquent and will take such actions as the

City determined are reasonably necessary to enforce payment of those delinquent accounts.

(g) **Maintenance of Insurance.** It at all times will carry fire and extended coverage, public liability and property damage and such other forms of insurance with responsible insurers and with policies payable to the City on such of the buildings, equipment, works, plants, facilities and properties of the Municipal Water System as are ordinarily carried by municipal or privately owned utilities engaged in the operation of like systems, and against such claims for damages as are ordinarily carried by municipal or privately owned utilities engaged in the operation of like systems, or it will self-insure or will participate in an insurance pool or pools with reserves adequate, in the reasonable judgment of the City, to protect the Municipal Water System and the owners of the Parity Bonds against loss.

(h) **Condemnation Awards and Insurance Proceeds.** If the City receives any condemnation awards or proceeds of an insurance policy in connection with any loss of or damage to any property of the Municipal Water System, it shall apply the condemnation award or insurance proceeds, in the City's sole discretion, either (i) to the cost of replacing or repairing the lost or damaged properties, (ii) to the payment, purchase or redemption of Prior Lien Bonds or Parity Bonds, or (iii) to the cost of improvements to the Municipal Water System.

Section 14. Flow of Funds. All ULID Assessments shall be paid into the Bond Account as provided by this ordinance. The Gross Revenue of the Municipal Water System shall be used for the following purposes only and shall be applied in the following order of priority:

(a) To pay the Operation and Maintenance Expenses;

(b) To pay, when due, interest on Prior Lien Bonds and net payments on Payment Agreements entered into on a parity with Prior Lien Bonds;

(c) To pay the principal of Prior Lien Bonds as it comes due at maturity or as the principal is required to be paid pursuant to mandatory redemption requirements applicable to Prior Lien Bonds that are term bonds, and to make payments due under any reimbursement agreement with a bond insurer which agreement requires those payments to be treated on a parity of lien with the Prior Lien Bonds;

(d) To make all payments required to be made with respect to reserve requirements for the Prior Lien Bonds, including without limitation payments under any agreement relating to reserve insurance and payments due under any reimbursement agreement with a bond insurer which agreement requires those payments to be treated on

a parity of lien with payments required to be made into the reserve account for the Prior Lien Bonds;

(e) To pay interest on Parity Bonds and net payments on Parity Payment Agreements when due;

(f) To pay the principal of Parity Bonds as it comes due at maturity or as the principal is required to be paid pursuant to mandatory redemption requirements applicable to Term Bonds, and to make payments due under any reimbursement agreement with a Bond Insurer which agreement requires those payments to be treated on a parity of lien with the Parity Bonds;

(g) To make all payments required to be made into the Reserve Subaccounts, all payments required to be made under any agreement relating to the provision of Reserve Insurance, and payments due under any reimbursement agreement with a Bond Insurer which agreement requires those payments to be treated on a parity of lien with the payments required to be made into the Series Reserve Subaccount;

(h) To make all payments required to be made into any revenue bond, note, warrant or other revenue obligation redemption fund, debt service account or reserve account created to pay or secure the payment of the principal of and interest on any revenue bonds, notes, warrants or other obligations of the City having a lien upon the revenue of the Municipal Water System junior and inferior to the lien thereon for the payment of the principal of and interest on the Parity Bonds; and

(i) To retire by redemption or purchase in the open market any outstanding revenue bonds or other revenue obligations of the Municipal Water System, to make necessary additional betterments, improvements and repairs to or extensions and replacements of the Municipal Water System, to make deposits into the Rate Stabilization Account, or for any other lawful Municipal Water System purposes.

The City may transfer any money from any funds or accounts of the Municipal Water System legally available therefor, except Prior Lien Bond redemption funds, refunding escrow funds or defeasance funds, and funds created for money to be rebated to the United States pursuant to the Code, to meet the required payments to be made into the Bond Account.

Section 15. Provisions for Future Parity Bonds. The City reserves the right to issue Future Parity Bonds and to enter into Parity Payment Agreements for purposes of the Municipal Water System or to refund a portion of the Parity Bonds if the following conditions are met and

complied with at the time of the issuance of those Future Parity Bonds or entering into the Parity Payment Agreement:

(a) There shall be no deficiency in the Bond Account and no Event of Default as defined in Section 24 hereof shall have occurred and be continuing.

(b) The Parity Bond Authorizing Ordinance shall provide that all assessments and interest thereon that may be levied in any ULID created for the purpose of paying, in whole or in part, the principal of and interest on those Future Parity Bonds, shall be paid directly into the Bond Account, except for any prepaid assessments permitted by law to be paid into a construction fund or account.

(c) The Parity Bond Authorizing Ordinance shall provide for the payment of the principal thereof and interest thereon out of the Bond Account.

(d) The Parity Bond Authorizing Ordinance shall provide for the payment of amounts into the Bond Account to meet mandatory redemption requirements applicable to any Term Bonds to be issued and for regular payments to be made for the payment of the principal of such Term Bonds on or before their maturity, or, as an alternative, the mandatory redemption of those Term Bonds prior to their maturity date from money in the Principal and Interest Subaccount.

(e) There shall be on file with the City either:

(1) a certificate of the Director of Finance demonstrating that during any twelve consecutive calendar months out of the immediately preceding twenty-four (24) calendar months Adjusted Net Revenue was at least equal to the Coverage Requirement for all Parity Bonds plus the Future Parity Bonds proposed to be issued (and assuming that the debt service of the proposed Future Parity Bonds for that twelve-month period was the Average Annual Debt Service for those proposed bonds); or

(2) a certificate of both the Director of Finance and the Superintendent of the Municipal Water System (or any officer who succeeds to substantially all of the responsibilities of either office) that in their opinion the Adjusted Net Revenue for the five fiscal years next following the earlier of (i) the end of the period during which interest on those Future Parity Bonds is to be capitalized or, if no interest is capitalized, the fiscal year in which the Future Parity Bonds are issued, or (ii) the date on which substantially all new facilities financed with those Future Parity Bonds are expected to commence operations, such Adjusted Net Revenue further adjusted as provided in paragraphs (i) through (iv)

below, will be at least equal to the Coverage Requirement. That certificate may take into account the following adjustments:

(i) Any changes in rates in effect and being charged, or rates expected to be charged in accordance with a program of specific rates, rate levels or increases in overall rate revenue approved by ordinance or resolution;

(ii) Net revenue from customers of the Municipal Water System who have become customers during the twelve (12) consecutive month period or thereafter, and their estimate of net revenue from any customers to be connected to the Municipal Water System who have paid the required connection charges, adjusted to reflect one year's net revenue from those customers;

(iii) Their estimate of net revenue from customers anticipated to be served by facilities or improvements financed in substantial part by those Future Parity Bonds (or additional Parity Bonds expected to be issued during the five-year period); and

(iv) Net revenue from any person, firm, corporation or municipal corporation under any executed contract for water or other utility service, which revenue was not included in the historical Net Revenue of the Municipal Water System.

If the Future Parity Bonds proposed to be issued are for the sole purpose of refunding outstanding bonds payable from the Bond Account, no such coverage certification shall be required if the Adjusted Annual Debt Service on the Parity Bonds after the issuance of the Future Parity Bonds is not, for any year in which the Parity Bonds being refunded were outstanding, more than five thousand dollars (\$5,000) over the Adjusted Annual Debt Service on the Parity Bonds prior to the issuance of those Future Parity Bonds.

Nothing contained herein shall prevent the City from issuing Future Parity Bonds to refund maturing Parity Bonds, money for the payment of which is not otherwise available.

Section 16. Reimbursement Obligations. If the City elects to meet any Series Reserve Requirement or any portion thereof through the use of Reserve Insurance or elects to secure any issue of Parity Bonds through the use of Bond Insurance, the City may contract with the entity

providing such Reserve Insurance or Bond Insurance to the effect that the City's reimbursement obligation, if any, to such entity ranks on a parity of lien with the Parity Bonds.

If provided by the Bond Sale Resolution or an ordinance or resolution providing for the issuance or the terms, conditions and covenants of Future Parity Bonds, if the principal of, interest or mandatory redemption requirements due on the Bonds is paid by a Bond Insurer pursuant to a Bond Insurance policy, the Bonds shall not be considered paid by the City, and the covenants, agreements and other obligations of the City to the registered owners shall continue to exist and the Bond Insurer shall be subrogated to the rights of the registered owners.

Section 17. Separate Utility Systems. The City may create, acquire, construct, finance, own and operate one or more additional systems for water supply, transmission or other commodity or service. The revenue of that separate utility system shall not be included in the Gross Revenue of the Municipal Water System and may be pledged to the payment of revenue obligations issued to purchase, construct, condemn or otherwise acquire or expand the separate utility system. Neither the Gross Revenue nor the Net Revenue of the Municipal Water System shall be pledged by the City to the payment of any obligations of a separate utility system except (1) as a Contract Resource Obligation upon compliance with Section 27 of Ordinance 116705 or Section 18 hereof and/or (2) with respect to the Net Revenue, on a basis subordinate to the lien of the Prior Lien Bonds and the Parity Bonds on that Net Revenue.

Section 18. Contract Resource Obligations. The City may at any time enter into one or more Contract Resource Obligations for the acquisition, from facilities to be constructed, of water supply, transmission or other commodity or service relating to the Municipal Water System. The City may determine that, and may agree under a Contract Resource Obligation to provide that, all payments under that Contract Resource Obligation (including payments prior to the time that water supply or transmission or other commodity or service is being provided, or during a suspension or after termination of supply or service) shall be Operation and

Maintenance Expenses if the following requirements are met at the time such a Contract Resource Obligation is entered into:

(a) No Event of Default as defined in Section 25 of this ordinance has occurred and is continuing.

(b) There shall be on file a certificate of an Independent Consulting Engineer stating that (i) the payments to be made by the City in connection with the Contract Resource Obligation are reasonable for the supply or transmission rendered; (ii) the source of any new supply, and any facilities to be constructed to provide the supply or transmission, are sound from a water or other commodity supply or transmission planning standpoint, are technically and economically feasible in accordance with prudent utility practice, and are likely to provide supply or transmission no later than a date set forth in the Independent Consulting Engineer's certification; and (iii) the Adjusted Net Revenue (further adjusted by the Independent Consulting Engineer's estimate of the payments to be made in accordance with the Contract Resource Obligation) for the five fiscal years following the year in which the Contract Resource Obligation is incurred, as such Adjusted Net Revenue is estimated by the Independent Consulting Engineer in accordance with the provisions of and adjustments permitted in Section 15(e)(2) hereof, will be at least equal to the Coverage Requirement.

Payments required to be made under Contract Resource Obligations shall not be subject to acceleration.

Nothing in this Section 18 shall be deemed to prevent the City from entering into other agreements for the acquisition of water supply, transmission or other commodity or service from existing facilities and from treating those payments as Operation and Maintenance Expenses. Nothing in this Section 18 shall be deemed to prevent the City from entering into other agreements for the acquisition of water supply, transmission or other commodity or service from facilities to be constructed and from agreeing to make payments with respect thereto, such payments constituting a lien and charge on Net Revenue subordinate to that of Parity Bonds.

Section 19. Preservation of Tax Exemption for Interest on Bonds. The City covenants that it will take all actions, consistent with the terms of the Bonds, this ordinance and the Bond Sale Resolution, reasonably within its power and necessary to prevent interest on the Bonds from being included in gross income for federal income tax purposes, and the City will

neither take any action nor make or permit any use of proceeds of the Bonds or other funds of the City treated as proceeds of the Bonds at any time during the term of the Bonds which will cause interest on the Bonds to be included in gross income for federal income tax purposes.

The City has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that the City is a bond issuer the arbitrage certifications of which may not be relied upon.

Section 20. Advance Refunding or Defeasance of Bonds. The City may issue advance refunding bonds pursuant to the laws of the State or use money available from any other lawful source to pay the principal of, interest and premium, if any, on the Bonds, or such portion thereof included in a refunding or defeasance plan, as the same become due and payable and to redeem and retire, release, refund or defease the Bonds (the "defeased Bonds") and to pay the costs of such refunding or defeasance. In the event that money and/or Government Obligations sufficient in amount, together with known earned income from the investments thereof, to redeem and retire, release, refund or defease the defeased Bonds in accordance with their terms, are set aside irrevocably in a special fund for and pledged irrevocably to such redemption, retirement or defeasance (the "trust account"), then all right and interest of the owners of the defeased Bonds in the covenants of this ordinance and in the Net Revenue and the funds and accounts pledged to the payment of such defeased Bonds, other than the right to receive the funds so set aside and pledged, thereafter shall cease and become void. Such owners thereafter shall have the right to receive payment of the principal of and interest or redemption price on the defeased Bonds from the trust account.

After the establishing and full funding of such a trust account, the City then may apply any money in any other fund or account established for the payment or redemption of the defeased Bonds to any lawful purposes as it shall determine, subject only to the rights of the owners of any other Parity Bonds.

1 If the refunding plan provides that the defeased Bonds to be issued be secured by money
2 and/or Government Obligations pending the prior redemption of the defeased Bonds and if such
3 refunding plan also provides that certain money and/or Government Obligations are pledged
4 irrevocably for the prior redemption of the defeased Bonds included in that refunding plan, then
5 only the debt service on the Bonds which are not defeased Bonds and the refunding bonds, the
6 payment of which is not so secured by the refunding plan, shall be included in the computation of
7 the Coverage Requirement for the issuance of Future Parity Bonds and the annual computation of
8 the Coverage Requirement for determining compliance with the rate covenants.

9 **Section 21. Sale of Bonds.** The Director of Finance may provide for the sale of the
10 Bonds in one or more series by a negotiated sale or sales with the underwriters chosen through a
11 selection process acceptable to the Director of Finance (the "Purchasers"). The terms of that sale
12 shall be consistent with this ordinance and confirmed by the Bond Sale Resolution. The Bonds
13 will be delivered to the Purchasers in New York, New York, within sixty (60) days after the sale
14 date and immediately upon payment to the City of the purchase price plus accrued interest to the
15 date of closing in immediately available federal funds in Seattle, Washington, at the City's
16 expense or at another time or place upon which the Director of Finance and the Purchasers may
17 mutually agree at the Purchasers' expense.

18 CUSIP numbers will be printed on the Bonds, but neither failure to print CUSIP numbers
19 on any Bond nor error with respect thereto shall constitute cause for a failure or refusal by the
20 Purchasers to accept delivery of and pay for the Bonds in accordance with the purchase offer. All
21 expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid by the City, but
22 the fee of the CUSIP Service Bureau for the assignment of those numbers shall be the
23 responsibility of and shall be paid by the Purchasers.

24 The City will cause the Bonds to be typed, photocopied, printed or lithographed, sealed
25 and executed and will furnish the approving legal opinion of Bond Counsel, the opinion also
26 being printed on each Bond unless the Bond is typed or photocopied.

1 **Section 22. Temporary Bond.** Pending the printing, execution and delivery to the
2 Purchasers of the definitive Bonds, the City may cause to be executed and delivered to the
3 Purchasers a single temporary Bond in the total principal amount of the Bonds. The temporary
4 Bond shall bear the same date of issuance, interest rates, principal payment dates and terms and
5 covenants as the definitive Bonds, shall be issued as a fully registered Bond in the name of the
6 Purchasers, and shall be in such form as acceptable to the Purchasers. Such temporary Bond
7 shall be exchanged for the definitive Bonds as soon as the same are printed, executed and
8 available for delivery.

9 **Section 23. Amendatory and Supplemental Ordinances.**

10 (a) This ordinance shall not be modified or amended in any respect
11 subsequent to the initial issuance of the Bonds, except as provided in and in accordance with and
12 subject to the provisions of this Section 23.

13 (b) The City, from time to time, and at any time, without the consent of or
14 notice to the registered owners of the Bonds, may pass supplemental or amendatory ordinances or
15 supplements or amendments to the Bond Sale Resolution, as follows:

16 (1) To cure any formal defect, omission, inconsistency or ambiguity in
17 this ordinance in a manner not adverse to the owner of any Parity Bond;

18 (2) To impose upon the Bond Registrar (with its consent) for the
19 benefit of the registered owners of the Bonds any additional rights, remedies, powers, authority,
20 security, liabilities or duties which may lawfully be granted, conferred or imposed and which are
21 not contrary to or inconsistent with this ordinance as theretofore in effect;

22 (3) To add to the covenants and agreements of, and limitations and
23 restrictions upon, the City in this ordinance, other covenants, agreements, limitations and
24 restrictions to be observed by the City which are not contrary or inconsistent with this ordinance
25 as theretofore in effect;

(4) To confirm, as further assurance, any pledge under, and the subjection to any claim, lien or pledge created or to be created by this ordinance of any other money, securities or funds;

(5) To authorize different denominations of the Bonds and to make correlative amendments and modifications to this ordinance regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature;

(6) To modify, alter, amend or supplement this ordinance in any other respect which is not materially adverse to the registered owners of the Parity Bonds and which does not involve a change described in paragraph (c) of this Section 23;

(7) Because of change in federal law or rulings, to maintain the exclusion from gross income of the interest on the Bonds from federal income taxation; and

(8) To add to the covenants and agreements of, and limitations and restrictions upon, the City in this ordinance, other covenants, agreements, limitations and restrictions to be observed by the City which are requested by a Bond Insurer or provider of Reserve Insurance and which are not materially adverse to the registered owners of the Parity Bonds.

Before the City shall adopt any such supplemental ordinance pursuant to this subsection, there shall have been delivered to the City and the Bond Registrar an opinion of Bond Counsel, stating that such supplemental ordinance is authorized or permitted by this ordinance and, upon the execution and delivery thereof, will be valid and binding upon the City in accordance with its terms and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

(c) (1) Except for any supplemental ordinance entered into pursuant to paragraph (b) of this Section 23, subject to the terms and provisions contained in this paragraph (c) and not otherwise, registered owners of not less than sixty percent (60%) in aggregate

principal amount of the Parity Bonds shall have the right from time to time to consent to and approve the passage by the City of any supplemental ordinance deemed necessary or desirable by the City for the purpose of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in this ordinance; except that, unless approved in writing by the registered owners of all Parity Bonds, nothing contained in this section shall permit, or be construed as permitting:

(i) A change in the times, amounts or currency of payment of the principal of or interest on any outstanding Parity Bond, or a reduction in the principal amount or redemption price of any outstanding Parity Bond or a change in the redemption price of any outstanding Parity Bond or a change in the method of determining the rate of interest thereon, or

(ii) A preference of priority of any Parity Bond or Bonds or any other bond or bonds, or

(iii) A reduction in the aggregate principal amount of Parity Bonds, the consent of the registered owners of Parity Bonds of which is required for any such supplemental ordinance.

(2) If at any time the City shall pass any supplemental ordinance for any of the purposes of this subsection (c), the Bond Registrar shall cause notice of the proposed supplemental ordinance to be given by first-class United States mail to all registered owners of the Parity Bonds, to any Bond Insurer, and to the Rating Agencies if the Bonds are rated by those agencies. Such notice shall briefly set forth the nature of the proposed supplemental ordinance and shall state that a copy thereof is on file at the office of the Bond Registrar for inspection by all registered owners of the Parity Bonds.

(3) Within two years after the date of the mailing of such notice, the City may adopt such supplemental ordinance in substantially the form described in such notice, but only if there shall have first been delivered to the Bond Registrar (i) the required consents, in writing, of the registered owners of the Parity Bonds, and (ii) an opinion of bond counsel stating that such supplemental ordinance is authorized or permitted by this ordinance and, upon the

1 execution and delivery thereof, will be valid and binding upon the City in accordance with its
2 terms and will not adversely affect the exclusion from gross income for federal income tax
3 purposes of interest on the Parity Bonds.

4 (4) If registered owners of not less than the percentage of Parity Bonds
5 required by this paragraph (c) shall have consented to and approved the execution and delivery
6 thereof as herein provided, no owner of the Parity Bonds shall have any right to object to the
7 passage of such supplemental ordinance, or to object to any of the terms and provisions
8 contained therein or the operation thereof, or in any manner to question the propriety of the
9 passage thereof, or to enjoin or restrain the City or the Bond Registrar from passing the same or
10 from taking any action pursuant to the provisions thereof.

11 (d) Upon the execution and delivery of any supplemental ordinance pursuant
12 to the provisions of this Section 23, this ordinance shall be, and be deemed to be, modified and
13 amended in accordance therewith, and the respective rights, duties and obligations under this
14 ordinance of the City, the Bond Registrar and all registered owners of Parity Bonds, shall
15 thereafter be determined, exercised and enforced under this ordinance subject in all respects to
16 such modifications and amendments.

17 Section 24. Defaults and Remedies.

18 24.1 Events of Default. The following shall constitute "Events of Default"
19 with respect to the Bonds:

20 (1) If a default is made in the payment of the principal of or interest on
21 any of the Bonds when the same shall become due and payable; or

22 (2) If the City defaults in the observance and performance of any other
23 of the covenants, conditions and agreements on the part of the City set forth in Sections 13(b),
24 (c), (d) and (h), 14, 15 and 19 of this ordinance and such default or defaults have continued for a
25 period of six months after they have received from the Bondowners' Trustee (as defined below)
26 or from the registered owners of not less than twenty-five percent (25%) in principal amount of

1 the Parity Bonds, a written notice specifying and demanding the cure of such default. However,
2 if the default in the observance and performance of any other of the covenants, conditions and
3 agreements is one which cannot be completely remedied within the six (6) months after written
4 notice has been given, it shall not be an Event of Default with respect to the Bonds as long as the
5 City has taken active steps within the six (6) months after written notice has been given to
6 remedy the default and is diligently pursuing such remedy.

7 (3) If the City files a petition in bankruptcy or is placed in receivership
8 under any state or federal bankruptcy or insolvency law.

9 24.2 Bondowners' Trustee. So long as such Event of Default has not been
10 remedied, a bondowners' trustee (the "Bondowners' Trustee") may be appointed by the
11 registered owners of twenty-five percent (25%) in principal amount of the Parity Bonds, by an
12 instrument or concurrent instruments in writing signed and acknowledged by such registered
13 owners of the Parity Bonds or by their attorneys-in-fact duly authorized and delivered to such
14 Bondowners' Trustee, notification thereof being given to the City. That appointment shall
15 become effective immediately upon acceptance thereof by the Bondowners' Trustee. Any
16 Bondowners' Trustee appointed under the provisions of this Subsection 24.2 shall be a bank or
17 trust company organized under the laws of the State of Washington or the State of New York or a
18 national banking association. The bank or trust company acting as Bondowners' Trustee may be
19 removed at any time, and a successor Bondowners' Trustee may be appointed, by the registered
20 owners of a majority in principal amount of the Parity Bonds, by an instrument or concurrent
21 instruments in writing signed and acknowledged by such registered owners of the Bonds or by
22 their attorneys-in-fact duly authorized. The Bondowners' Trustee may require such security and
23 indemnity as may be reasonable against the costs, expenses and liabilities that may be incurred in
24 the performance of its duties.

25 In the event that any Event of Default in the sole judgment of the Bondowners' Trustee is
26 cured and the Bondowners' Trustee furnishes to the City a certificate so stating, that Event of

Default shall be conclusively deemed to be cured and the City, the Bondowners' Trustee and the registered owners of the Parity Bonds shall be restored to the same rights and position which they would have held if no Event of Default had occurred.

The Bondowners' Trustee appointed in the manner herein provided, and each successor thereto, is declared to be a trustee for the registered owners of all the Parity Bonds and is empowered to exercise all the rights and powers herein conferred on the Bondowners' Trustee.

24.3 Suits at Law or in Equity. Upon the happening of an Event of Default and during the continuance thereof, the Bondowners' Trustee may, and upon the written request of the registered owners of not less than twenty-five percent (25%) in principal amount of the Parity Bonds outstanding shall, take such steps and institute such suits, actions or other proceedings, all as it may deem appropriate for the protection and enforcement of the rights of the registered owners of the Parity Bonds, to collect any amounts due and owing to or from the City, or to obtain other appropriate relief, and may enforce the specific performance of any covenant, agreement or condition contained in this ordinance or in any of the Parity Bonds.

Nothing contained in this Section 24 shall, in any event or under any circumstance, be deemed to authorize the acceleration of maturity of principal on the Parity Bonds, and the remedy of acceleration is expressly denied to the registered owners of the Parity Bonds under any circumstances including, without limitation, upon the occurrence and continuance of an Event of Default.

Any action, suit or other proceedings instituted by the Bondowners' Trustee hereunder shall be brought in its name as trustee for the Bondowners and all such rights of action upon or under any of the Parity Bonds or the provisions of this ordinance may be enforced by the Bondowners' Trustee without the possession of any of those Parity Bonds and without the production of the same at any trial or proceedings relative thereto except where otherwise required by law. Any such suit, action or proceeding instituted by the Bondowners' Trustee shall be brought for the ratable benefit of all of the registered owners of those Parity Bonds, subject to

the provisions of this ordinance. The respective registered owners of the Parity Bonds, by taking and holding the same, shall be conclusively deemed irrevocably to appoint the Bondowners' Trustee the true and lawful trustee of the respective registered owners of those Parity Bonds, with authority to institute any such action, suit or proceeding; to receive as trustee and deposit in trust any sums becoming distributable on account of those Parity Bonds; to execute any paper or documents for the receipt of money; and to do all acts with respect thereto that the registered owner himself or herself might have done in person. Nothing herein shall be deemed to authorize or empower the Bondowners' Trustee to consent to accept or adopt, on behalf of any registered owner of the Parity Bonds, any plan of reorganization or adjustment affecting the Parity Bonds or any right of any registered owner thereof, or to authorize or empower the Bondowners' Trustee to vote the claims of the registered owners thereof in any receivership, insolvency, liquidation, bankruptcy, reorganization or other proceeding to which the City is a party.

24.4 Application of Money Collected by Bondowners' Trustee. Any money collected by the Bondowners' Trustee at any time pursuant to this Section 24 shall be applied in the following order of priority:

(i) first, to the payment of the charges, expenses, advances and compensation of the Bondowners' Trustee and the charges, expenses, counsel fees, disbursements and compensation of its agents and attorneys; and

(ii) second, to the payment to the persons entitled thereto of all installments of interest then due first on any Prior Lien Bonds and then on the Parity Bonds in the order of maturity of such installments and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination or preference; and

(iii) third, to the payment to the persons entitled thereto of the unpaid principal amounts first on any Prior Lien Bonds and then on any Parity Bonds which shall have become due (other than Prior Lien Bonds and Parity Bonds previously called for redemption for the payment of

which money is held pursuant to the provisions hereto), whether at maturity or by proceedings for redemption or otherwise, in the order of their due dates and, if the amount available shall not be sufficient to pay in full the principal amounts due on the same date, then to the payment thereof ratably, according to the principal amounts due thereon to the persons entitled thereto, without any discrimination or preference.

24.5 Duties and Obligations of Bondowners' Trustee. The Bondowners' Trustee shall not be liable except for the performance of such duties as are specifically set forth herein. During an Event of Default, the Bondowners' Trustee shall exercise such of the rights and powers vested in it hereby, and shall use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. The Bondowners' Trustee shall have no liability for any act or omission to act hereunder except for the Bondowners' Trustee's own negligent action, its own negligent failure to act or its own willful misconduct. The duties and obligations of the Bondowners' Trustee shall be determined solely by the express provisions of this ordinance, and no implied powers, duties or obligations of the Bondowners' Trustee shall be read into this ordinance.

The Bondowners' Trustee shall not be required to expend or risk its own funds or otherwise incur individual liability in the performance of any of its duties or in the exercise of any of its rights or powers as the Bondowners' Trustee, except as may result from its own negligent action, its own negligent failure to act or its own willful misconduct.

The Bondowners' Trustee shall not be bound to recognize any person as a registered owner of any Bond until his title thereto, if disputed, has been established to its reasonable satisfaction.

The Bondowners' Trustee may consult with counsel and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance with the opinion of such counsel. The Bondowners' Trustee shall not be answerable for any neglect or default of any person, firm or corporation employed and selected by it with reasonable care.

24.6 Suits by Individual Bondowners Restricted. Neither the registered owner nor the beneficial owner of any one or more of Parity Bonds shall have any right to institute any action, suit or proceeding at law or in equity for the enforcement of same unless:

- (i) an Event of Default has happened and is continuing; and
- (ii) a Bondowners' Trustee has been appointed; and
- (iii) such owner previously shall have given to the Bondowners' Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted; and
- (iv) the registered owners of twenty-five percent (25%) in principal amount of the Parity Bonds, after the occurrence of such Event of Default, has made written request of the Bondowners' Trustee and have afforded the Bondowners' Trustee a reasonable opportunity to institute such suit, action or proceeding; and
- (v) there have been offered to the Bondowners' Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby; and
- (vi) the Bondowners' Trustee has refused or neglected to comply with such request within a reasonable time.

No registered owner or beneficial owner of any Parity Bond shall have any right in any manner whatever by his action to affect or impair the obligation of the City to pay from the Net Revenue the principal of and interest on such Parity Bonds to the respective owners thereof when due.

Section 25. General Authorization. The Mayor and the Director of Finance and each of the other appropriate officers of the City are each authorized and directed to do everything as in their judgment may be necessary, appropriate or desirable in order to carry out the terms and provisions of, and to complete the transactions contemplated by, this Ordinance.

Section 26. Governing Law. This ordinance and the Bond Sale Resolution shall be construed and governed in accordance with the laws of the State. The agreements entered into pursuant to Section 4 may be governed by such laws as designated in those agreements.

Section 27. Severability. The provisions of this ordinance are declared to be separate and severable. If a court of competent jurisdiction, all appeals having been exhausted or all appeal periods having run, finds any provision of this ordinance to be invalid or unenforceable as to any person or circumstance, such offending provision shall, if feasible, be deemed to be modified to be within the limits of enforceability or validity. However, if the offending provision cannot be so modified, it shall be null and void with respect to the particular person or circumstance, and all other provisions of this ordinance in all other respects, and the offending provision with respect to all other persons and all other circumstances, shall remain valid and enforceable.

Section 28. Ratification of Prior Acts. Any action taken consistent with the authority and prior to the effective date of this ordinance, including, if applicable, but not limited to issuing requests for proposals for financing or underwriting services, executing engagement letters for financing or underwriting services based on responses to such requests, giving notices of the sale of Bonds, executing contracts or other documents, making fund transfers, and paying warrants, is ratified, approved and confirmed.

Section 29. Section Headings. The section headings in this ordinance are used for convenience only and shall not constitute a substantive portion of this ordinance.

Section 30. Effective Date of Ordinance. This ordinance shall take effect and be in force thirty (30) days from and after its approval by the Mayor, but if not approved and returned by the Mayor within ten (10) days after presentation, this ordinance shall take effect as provided by Seattle Municipal Code Section 1.04.020.

Passed by the City Council the 15th day of October, 2001, and signed by me in open session in authentication of its passage this 15th day of October, 2001.

/s/ _____
President of the City Council

Approved by me this 16th day of October, 2001.

/s/ _____
Mayor

Filed this 16th day of October, 2001.

/s/ _____
City Clerk

(SEAL)

APPENDIX B

FORMS OF BOND COUNSEL OPINIONS

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The City of Seattle, Washington

Re: The City of Seattle, Washington, \$32,500,000
Water System Adjustable Rate Revenue Bonds, 2002, Series A

We have served as bond counsel to The City of Seattle, Washington (the "City"), in connection with the issuance of the above-referenced bonds (the "Series A Bonds"), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion.

The Series A Bonds are issued pursuant to the laws of the State of Washington and Ordinance 120548 and Resolution 30464 of the City (collectively, the "Bond Legislation") to provide the funds to pay part of the cost of carrying out a plan of additions and betterments to and extensions of the Municipal Water System and to pay the costs of issuance and sale of the Series A Bonds, all as set forth in the Bond Legislation.

Reference is made to the Bond Legislation for the definitions of the capitalized terms used and not otherwise defined herein.

The Series A Bonds are issued in the aggregate principal amount of \$32,500,000; are fully registered; are in Authorized Denominations; are dated their date of issue; mature on March 1, 2032; initially bear interest at Weekly Rates; and are subject to optional and mandatory redemption, optional and mandatory tender for purchase and conversion to other adjustable rate Modes and to Fixed Rates, all as more specifically described in the Series A Bonds and in the Bond Legislation.

The Series A Bonds are special limited obligations of the City payable solely from the sources identified in the Bond Legislation, including primarily draws on the initial Letter of Credit provided by Bayerische Landesbank Girozentrale or an Alternate Credit Facility, Net Revenue of the Municipal Water System and money in the Bond Account and certain other funds and accounts established and maintained pursuant to the Bond Legislation. The charge and lien of the Series A Bonds on the Net Revenue is on a parity with the charge and lien of the 1995 Bonds, the Series B Bonds and any Future Parity Bonds and is prior and superior to all other charges whatsoever, except the charge and lien on that Net Revenue of the Prior Lien Bonds. Upon conversion of interest on the Series A Bonds to Fixed Rates, the City may cause the Series A Bonds to become Prior Lien Bonds in accordance with the Bond Legislation.

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Alaska

PORTLAND
Oregon

SEATTLE
Washington

SPOKANE
Washington

Under the Internal Revenue Code of 1986, as amended (the "Code"), the City is required to comply with certain requirements after the date of issuance of the Series A Bonds in order to maintain the exclusion of the interest on the Series A Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Series A Bond proceeds and the facilities financed or refinanced with Series A Bond proceeds, limitations on investing gross proceeds of the Series A Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Series A Bonds. The City has covenanted in the Bond Legislation to comply with those requirements, but if the City fails to comply with those requirements, interest on the Series A Bonds could become taxable retroactive to the date of issuance of the Series A Bonds. We have not undertaken and do not undertake to monitor the City's compliance with such requirements.

As of the date of initial delivery of the Series A Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The City is a duly organized and legally existing first class city under the laws of the State of Washington;
2. The City has duly authorized and approved the Bond Legislation, and the Series A Bonds are issued in full compliance with the provisions of the Constitution and laws of the State of Washington, the Bond Legislation and other ordinances and resolutions of the City relating thereto;
3. The Series A Bonds constitute legal, valid and binding obligations of the City payable solely out of the Net Revenue of the Municipal Water System and money in the Bond Account and other specified funds and accounts, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and by principles of equity if equitable remedies are sought;
4. The Series A Bonds are not general obligations of the City; and
5. Assuming compliance by the City after the date of issuance of the Series A Bonds with applicable requirements of the Code, the interest on the Series A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Series A Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Series A Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Series A Bonds received by certain S corporations may be subject to tax, and interest on the Series A Bonds received by foreign

The City of Seattle, Washington
May 15, 2002
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corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the Series A Bonds, nor do we express any opinion with respect to interest paid on Bank Bonds or on any of the Series A Bonds after Conversion of interest on the Series A Bonds to a Fixed Rate or Auction Mode.

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the Series A Bonds or otherwise used in connection with the Series A Bonds.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

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The City of Seattle, Washington

Re: The City of Seattle, Washington, \$32,500,000
 Water System Adjustable Rate Revenue Bonds, 2002, Series B

We have served as bond counsel to The City of Seattle, Washington (the "City"), in connection with the issuance of the above-referenced bonds (the "Series B Bonds"), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion.

The Series B Bonds are issued pursuant to the laws of the State of Washington and Ordinance 120548 and Resolution 30465 of the City (collectively, the "Bond Legislation") to provide the funds to pay part of the cost of carrying out a plan of additions and betterments to and extensions of the Municipal Water System and to pay the costs of issuance and sale of the Series B Bonds, all as set forth in the Bond Legislation.

Reference is made to the Bond Legislation for the definitions of the capitalized terms used and not otherwise defined herein.

The Series B Bonds are issued in the aggregate principal amount of \$32,500,000; are fully registered; are in Authorized Denominations; are dated their date of issue; mature on March 1, 2032; initially bear interest at Weekly Rates; and are subject to optional and mandatory redemption, optional and mandatory tender for purchase and conversion to other adjustable rate Modes and to Fixed Rates, all as more specifically described in the Series B Bonds and in the Bond Legislation.

The Series B Bonds are special limited obligations of the City payable solely from the sources identified in the Bond Legislation, including primarily draws on the initial Letter of Credit provided by Bayerische Landesbank Girozentrale or an Alternate Credit Facility, Net Revenue of the Municipal Water System and money in the Bond Account and certain other funds and accounts established and maintained pursuant to the Bond Legislation. The charge and lien of the Series B Bonds on the Net Revenue is on a parity with the charge and lien of the 1995 Bonds, the Series A Bonds and any Future Parity Bonds and is prior and superior to all other charges whatsoever, except the charge and lien on that Net Revenue of the Prior Lien Bonds. Upon conversion of interest on the Series B Bonds to Fixed Rates, the City may cause the Series B Bonds to become Prior Lien Bonds in accordance with the Bond Legislation.

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Under the Internal Revenue Code of 1986, as amended (the "Code"), the City is required to comply with certain requirements after the date of issuance of the Series B Bonds in order to maintain the exclusion of the interest on the Series B Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Series B Bond proceeds and the facilities financed or refinanced with Series B Bond proceeds, limitations on investing gross proceeds of the Series B Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Series B Bonds. The City has covenanted in the Bond Legislation to comply with those requirements, but if the City fails to comply with those requirements, interest on the Series B Bonds could become taxable retroactive to the date of issuance of the Series B Bonds. We have not undertaken and do not undertake to monitor the City's compliance with such requirements.

As of the date of initial delivery of the Series B Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The City is a duly organized and legally existing first class city under the laws of the State of Washington;
2. The City has duly authorized and approved the Bond Legislation, and the Series B Bonds are issued in full compliance with the provisions of the Constitution and laws of the State of Washington, the Bond Legislation and other ordinances and resolutions of the City relating thereto;
3. The Series B Bonds constitute legal, valid and binding obligations of the City payable solely out of the Net Revenue of the Municipal Water System and money in the Bond Account and other specified funds and accounts, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and by principles of equity if equitable remedies are sought;
4. The Series B Bonds are not general obligations of the City; and
5. Assuming compliance by the City after the date of issuance of the Series B Bonds with applicable requirements of the Code, the interest on the Series B Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Series B Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Series B Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Series B Bonds received by certain S corporations may be subject to tax, and interest on the Series B Bonds received by foreign

The City of Seattle, Washington
May 15, 2002
Page 3

corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the Series B Bonds, nor do we express any opinion with respect to interest paid on Bank Bonds or on any of the Series B Bonds after Conversion of interest on the Series B Bonds to a Fixed Rate or Auction Mode.

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the Series B Bonds or otherwise used in connection with the Series B Bonds.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

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APPENDIX C

2001 AUDITED FINANCIAL STATEMENTS OF THE WATER SYSTEM

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SEATTLE PUBLIC UTILITIES – WATER FUND

FINANCIAL STATEMENTS FOR THE
YEARS ENDED DECEMBER 31, 2001 AND 2000, AND
INDEPENDENT AUDITORS' REPORT

Deloitte & Touche LLP



INDEPENDENT AUDITORS' REPORT

Director
Seattle Public Utilities – Water Fund
Seattle, Washington

We have audited the accompanying balance sheets of the Seattle Public Utilities – Water Fund (the Fund) as of December 31, 2001 and 2000, and the related statements of operations and changes in retained earnings and of cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, in 2001, the Fund changed its method of accounting for nonexchange transactions to conform with Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Deloitte & Touche LLP

March 27, 2002

SEATTLE PUBLIC UTILITIES – WATER FUND

BALANCE SHEETS

DECEMBER 31, 2001 AND 2000

<u>ASSETS</u>	<u>2001</u>	<u>2000</u>
UTILITY PLANT, at original cost:		
Plant in service, excluding land	\$ 823,936,163	\$ 788,616,976
Less accumulated depreciation	<u>(225,141,848)</u>	<u>(205,482,179)</u>
	598,794,315	583,134,797
Construction in progress	170,421,339	134,421,110
Land and land rights	13,511,222	13,477,135
Nonoperating property, net of accumulated depreciation	<u>274,512</u>	<u>408,863</u>
	783,001,388	731,441,905
RESTRICTED ASSETS:		
Construction Fund:		
Cash and equity in pooled investments	1,552,761	50,433,848
Investments	33,578,241	
Vendor deposits – Cash and equity in pooled investments	<u>945,575</u>	<u>1,457,510</u>
	36,076,577	51,891,358
CURRENT ASSETS:		
Cash and equity in pooled investments	1,254,645	8,403,176
Rate Stabilization Fund – Cash and equity in pooled investments	3,000,000	4,252,000
Accounts receivable, net of allowances for doubtful accounts of \$133,756 and \$51,535	9,112,912	8,811,639
Unbilled revenues	5,919,684	4,664,204
Due from other City funds	1,655,192	2,628,142
Due from other governments	778,299	57,751
Materials and supplies inventory	4,508,735	4,745,551
Prepayments and other	11,859	17,235
Current portion of notes and contracts receivable	<u>86,615</u>	<u>27,599</u>
	26,327,941	33,607,297
DEFERRED CHARGES AND OTHER:		
Unamortized bond issue costs, net	4,658,777	4,188,911
Notes and contracts receivable	801,631	145,514
Deferred conservation costs, net	10,897,135	8,618,857
Other deferred charges	<u>24,033,377</u>	<u>16,187,619</u>
	40,390,920	29,140,901
TOTAL	<u>\$ 885,796,826</u>	<u>\$ 846,081,461</u>

See notes to financial statements.

EQUITY AND LIABILITIES20012000

EQUITY:

Retained earnings	\$ 112,436,361	\$ 107,552,368
Contributions in aid of construction	<u>148,640,604</u>	<u>148,640,604</u>
	261,076,965	256,192,972

REVENUE BONDS:

Revenue bonds, due serially	607,490,000	572,560,000
Less revenue bonds due within one year	(18,360,000)	(17,595,000)
Less bond discount and premium, net	(5,144,835)	(6,176,041)
Less deferred charges on advanced refunding	<u>(6,797,877)</u>	<u>(7,450,566)</u>
	577,187,288	541,338,393

NONCURRENT AND OTHER LIABILITIES:

Public works trust loan	1,300,384	1,418,601
Claims payable	1,291,164	2,281,942
Environmental liability	1,300,000	1,970,989
Vendor deposits payable	945,575	1,634,949
Other	<u>711,483</u>	<u>741,910</u>
	5,548,606	8,048,391

CURRENT LIABILITIES:

Accounts payable	6,484,749	5,541,067
Accrued payroll and payroll taxes payable	1,323,540	929,746
Compensated absences payable	3,240,802	2,753,256
Due to other City funds	2,896,446	4,801,555
Claims payable	596,060	620,340
Revenue bonds due within one year	18,360,000	17,595,000
Public works trust loan due within one year	118,217	118,217
Accrued interest payable	8,079,195	7,792,832
Accrued taxes payable	188,898	308,324
Deferred credits and other	<u>696,060</u>	<u>41,368</u>
	41,983,967	40,501,705

TOTAL

\$ 885,796,826\$ 846,081,461

SEATTLE PUBLIC UTILITIES – WATER FUND

STATEMENTS OF OPERATIONS AND CHANGES IN RETAINED EARNINGS YEARS ENDED DECEMBER 31, 2001 AND 2000

	<u>2001</u>	<u>2000</u>
OPERATING REVENUES:		
Direct service	\$ 72,891,449	\$ 71,059,676
Wholesale	30,936,018	33,121,430
Other	<u>1,517,850</u>	<u>1,177,201</u>
Total operating revenues	105,345,317	105,358,307
OPERATING EXPENSES:		
Resource management	18,300,072	16,309,687
Field operations	12,623,509	10,858,697
Engineering services	2,374,650	2,939,935
Customer services	7,701,374	6,526,697
General and administrative	10,736,150	7,691,019
City business and occupation taxes	7,157,162	6,890,171
Other taxes	3,705,544	3,684,761
Depreciation and amortization	<u>23,748,307</u>	<u>18,424,697</u>
Total operating expenses	<u>86,346,768</u>	<u>73,325,664</u>
Net operating income	18,998,549	32,032,643
OTHER INCOME (EXPENSES):		
Investment and interest income	2,206,350	7,106,312
Interest expense	(21,910,147)	(18,291,928)
Amortization of debt expenses	(1,338,285)	(1,400,213)
Gain on sale of capital assets		(1,041,303)
Other, net	<u>1,456,845</u>	<u>1,740,846</u>
Total other expenses	(19,585,237)	(11,886,286)
CAPITAL AND OPERATING FEES, CONTRIBUTIONS, AND GRANTS:		
Capital fees, contributions, and grants	5,186,225	
Operating fees, contributions, and grants	<u>284,456</u>	<u>581,691</u>
Total capital and operating fees, contributions, and grants	<u>5,470,681</u>	<u>581,691</u>
NET INCOME	4,883,993	20,728,048
RETAINED EARNINGS:		
Beginning of year	<u>107,552,368</u>	<u>86,824,320</u>
End of year	<u>\$ 112,436,361</u>	<u>\$ 107,552,368</u>

SEATTLE PUBLIC UTILITIES – WATER FUND

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2001 AND 2000

	<u>2001</u>	<u>2000</u>
OPERATING ACTIVITIES:		
Cash received from customers	\$ 103,325,834	\$ 105,071,461
Cash paid to suppliers and employees	(52,956,312)	(48,408,124)
Cash paid for taxes	<u>(10,949,947)</u>	<u>(10,604,553)</u>
Net cash provided by operating activities	39,419,575	46,058,784
NONCAPITAL FINANCING ACTIVITIES:		
Operating grants received	284,456	581,691
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from the sale of bonds	53,109,459	
Principal payments on revenue bonds	(17,595,000)	(15,179,999)
Debt issuance costs	(708,715)	
Principal payment on public works trust loan	(118,217)	(118,217)
Acquisition and construction of utility plant and additions to deferred assets	(78,225,637)	(103,504,194)
Interest paid	(29,148,661)	(16,820,204)
Capital fees, contributions and grants	5,186,225	5,183,193
Cash received from disposal of capital assets	<u>1,374,853</u>	<u>2,178,184</u>
Net cash used by capital and related financing activities	(66,125,693)	(128,261,237)
INVESTING ACTIVITIES:		
Purchase of investments	(33,578,241)	
Interest received on investments	<u>2,206,350</u>	<u>6,754,021</u>
Net cash provided (used) by investing activities	<u>(31,371,891)</u>	<u>6,754,021</u>
NET DECREASE IN CASH AND EQUITY IN POOLED INVESTMENTS	(57,793,553)	(74,866,741)
CASH AND EQUITY IN POOLED INVESTMENTS:		
Beginning of year	<u>64,546,534</u>	<u>139,413,275</u>
End of year	<u>\$ 6,752,981</u>	<u>\$ 64,546,534</u>

SEATTLE PUBLIC UTILITIES – WATER FUND

STATEMENTS OF CASH FLOWS *(continued)*
YEARS ENDED DECEMBER 31, 2001 AND 2000

	<u>2001</u>	<u>2000</u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating income	\$ 18,998,549	\$ 32,032,643
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	23,748,307	18,424,697
Cash provided (used) by changes in operating assets and liabilities:		
Accounts receivable	(301,273)	(2,088,662)
Unbilled revenues	(1,255,480)	(927,503)
Due from other City funds	252,402	2,729,319
Materials and supplies inventory	236,816	(32,576)
Current portion of notes and contracts receivable	(59,016)	(2,552)
Prepayments and other	5,376	18,846
Notes and contracts receivable	(656,117)	755,478
Environmental liability	(270,309)	(354,853)
Vendor deposits payable	(689,374)	(159,423)
Accounts payable	943,682	(1,600,831)
Accrued payroll and payroll taxes payable	393,794	(263,055)
Compensated absences payable	487,546	(123,729)
Due to other City funds	(1,905,109)	(2,574,956)
Claims payable	(1,015,058)	305,493
Other liabilities	<u>504,839</u>	<u>(79,552)</u>
Total adjustments	<u>20,421,026</u>	<u>14,026,141</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 39,419,575</u>	<u>\$ 46,058,784</u>

SEATTLE PUBLIC UTILITIES – WATER FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 1: OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations: The City of Seattle, Seattle Public Utilities – Water Fund (the Fund) is a public utility enterprise fund of the City of Seattle (the City). On January 1, 1997, the City created Seattle Public Utilities (SPU), which brought together under one administrative umbrella the Water, Solid Waste, and Drainage and Wastewater functions of the City as well as certain engineering functions. The Fund (as well as the other funds) remains separate for accounting purposes. SPU receives certain services from other departments and agencies of the City, including some that are normally considered to be general and administrative. The Fund is charged a share of these costs and additionally pays a business and occupation tax to the City's General Fund. Water services provided by the Fund to other City departments and agencies are billed at rates prescribed by City ordinances. Under direction of the Seattle City Council, no charges are made to the City for water services for public fire protection.

SPU provides customer service for, and the cost is shared among, SPU's three utility funds (Water, Drainage and Wastewater, and Solid Waste) and Seattle City Light (SCL). In addition, SPU also performed utility billing for each of these entities until early 2001, when SCL implemented its new billing system, Combined Customer Service System, and began performing the utility billing service for each of the entities. Instead of billing each other for the two operating services, SPU and SCL made an arrangement to exchange the services. For the years ended December 31, 2001 and 2000, the charge to the Fund was \$7,701,374 and \$6,526,697, respectively. The amount shared by SCL for 2001 and 2000 was \$636,514 and \$3,322,062, respectively. SPU received approximately \$2,276,000 of exchanged services in 2001.

The Fund is subject to regulation by the City and the state of Washington. Service rates are authorized by ordinances passed by the City Council. Accounting policies and financial reporting are regulated by the Washington State Auditor's Office, Division of Municipal Corporations and conform to accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Fund has chosen to apply all pronouncements and interpretations issued by the GASB, as well as those issued by the Financial Accounting Standards Board on or before November 30, 1989, except when they conflict with the GASB.

Basis of accounting: The Fund is accounted for on a flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. With the flow of economic resources measurement focus, all assets and liabilities associated with the Fund's operations are included on the balance sheets. The operating statements present increases (revenues) and decreases (expenses) in total assets.

Revenues: The Fund provides water service to wholesale and retail customers and recognizes revenue when such service is provided. Wholesale customers (Purveyors) are under contract with the Fund and rates are set based on cost allocation criteria stipulated in the contracts.

Service rates for all customers are authorized by ordinances passed by the Seattle City Council. Billings are made to customers monthly or bimonthly. Revenues for water sold to customers between the last billing date and the end of the year are estimated and accrued in the accompanying financial statements.

Utility plant: Utility plant is stated at cost or, if contributed, at fair value at the date of contribution. Costs include direct material, labor, and indirect costs such as engineering, supervision, payroll taxes, pension benefits, and interest relating to the financing of projects under construction. The cost of current repairs and maintenance is charged to expense, while the cost of replacements and betterments is capitalized. At the time property is retired and removed from service, the original cost of the property, together with removal cost less salvage value, is charged to the depreciation reserve.

Depreciation: Plant in service is depreciated on the straight-line method, using composite rates based on estimated lives as follows:

Earthen source of supply developments	100 years
Transmission and distribution reservoirs, tanks, and mains	50 to 100 years
Pumps, wells, and treatment facilities	15 to 33 years
Buildings, fixtures, and equipment	3 to 50 years

It is the Fund's policy to begin recording depreciation in the year following acquisition and to record a full year's charge in the year of disposition.

Construction in progress: Capitalizable costs incurred on projects which are not in use or ready for use are held in construction in progress. When the asset is ready for use, related costs are transferred to utility plant. Upon determining that a project will be abandoned, the related costs are charged to expense.

Deferred conservation costs: Conservation program costs that result in long-term benefits and reduce or postpone other capital expenditures are capitalized and amortized over their expected useful lives of 10 years, commencing when each program is in place. Costs of administering the overall program are expensed as incurred.

Deferred computer systems costs: The Fund capitalizes all direct and incremental costs and the related overhead incurred in connection with the development of significant information systems projects that are to be used internally. Such costs are shown as other deferred charges on the balance sheets and are amortized over the projects' estimated useful life, usually six to eight years. In 2001, the Fund put a computer system, the Consolidated Customer Service System (CCSS), in service. Deferred CCSS costs of \$9,438,452 will be amortized for eight years beginning in 2002.

Preliminary survey investigation costs: The Fund defers costs associated with preliminary survey investigations and feasibility studies within other deferred charges on the balance sheets and amortizes those costs either over the periods for which they are included in rates or over the estimated economic life of the study. In the instance of abandonment of a project, all associated costs would be written off at that time.

Environmental liability cleanup costs: In the ordinary course of conducting its business, the Fund incurs liabilities related to the cleanup of certain environmental contaminants. The Fund's policy is to recognize the expense associated with the cleanup over those periods in which the costs are recovered through rates.

Rate Stabilization Fund: The Rate Stabilization Fund was established in 1993 to reduce future rate spikes. The Fund may deposit a certain amount of proceeds from its revenues into the Rate Stabilization Fund and may withdraw money from the fund and transfer it into any other account in the Fund, at any time. Deposits into the fund are not included as revenue available for debt service coverage in the year the deposit is made. Conversely, money withdrawn from the fund is considered revenue available for debt service coverage in the year the withdrawal is made.

Timber sales: The Fund occasionally contracts with outside timber purchasers to harvest timber owned within its watershed and nonoperating properties. Revenue is recognized based on terms of the harvesting contract. The cutting schedules and associated revenues and expenses are primarily determined by market and other factors. Income arising from timber operations may vary significantly from year to year.

Net revenues from commercial thinning, salvage, and timber harvest in the Cedar River Watershed are obligated, in compliance with City ordinance, to support land and habitat acquisition within the watershed.

Compensated absences: Employees earn vacation based on their date of hire and years in service, and may accumulate earned vacation up to a maximum of 480 hours. Unused vacation at retirement or normal termination is considered vested and payable to the employee. Earned but unused vacation is accrued as a liability of the Fund.

Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit. Employees are paid 25% of the value of unused sick leave upon retirement. They are not paid for unused sick leave if they leave before retirement. The Fund records a liability for estimated sick leave payments.

Taxes: The Fund is charged a business and occupation tax by the City at a rate of 10% of Fund revenues, net of certain credits. In addition, the Fund paid a public utility tax to the state based on approximately 4% of a certain portion of revenues. The remainder was taxed under the business and occupation tax at the rate of 1.5% in 2001 and 2000.

New accounting pronouncements: In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, effective for the Fund in fiscal year 2002. For the Fund, this statement will require certain formatting changes to the basic financial statements as well as a required section covering management's discussion and analysis and certain other required supplementary information. The Fund does not anticipate a material impact to the financial position or operations of the Fund as a result of implementing this statement.

Accounting changes: In December 1998, the GASB issued Statement No. 33, which requires the Fund to report nonexchange transactions as revenue. The Fund adopted GASB Statement No. 33 in the year ended December 31, 2001. Capital and operating grants and the donor cost or fair value of contributed property and equipment were reported as a component of equity as contributions in aid of construction prior to implementation of GASB Statement No. 33. In 2001, capital fees, contributions, and grants in the amount of \$5,186,225 are accounted for in the statements of operations and changes in retained earnings as a result of the adoption of the statement. The cumulative effect of the adoption of this standard will be made in 2002 in conjunction with the implementation of GASB Statement No. 34.

Use of estimates: The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. Estimates and assumptions are used to record unbilled revenues, allowance for doubtful accounts, accrued sick leave, environmental liabilities, and other contingencies. Changes in these estimates and assumptions may have a material impact on the financial statements.

Reclassifications: Certain reclassifications have been made to prior year balances to provide a presentation consistent with the current year.

NOTE 2: CASH AND EQUITY IN POOLED INVESTMENTS AND INVESTMENTS

The City's Department of Finance invests all temporary cash surpluses for City departments. This department may, at various times, invest these surpluses in certificates of deposit issued by Washington State depositories that participate in a state insurance pool, U.S. Treasury and agency securities, prime bankers' acceptances trading in the secondary market, and repurchase or reverse-repurchase agreements with primary dealers that use authorized securities as collateral. Delivery of collateral on the underlying securities is required on all repurchase agreement transactions. The Fund is allocated interest income by the City.

It is the City's policy that all investments of the Fund, except repurchase or reverse-repurchase agreements, be held by banks or trust companies as agents of the City and in the City's name. The City's policy is to hold all investments to maturity.

The first \$100,000 of bank deposits are federally insured. The Washington State Public Deposit Protection Commission (PDPC) collateralizes deposits in excess of \$100,000. The PDPC is a multiple financial institution collateral pool. There is no provision for the PDPC to make additional pro rata assessments if needed to cover a loss. Therefore, the PDPC protection is of the nature of collateral, not of insurance.

The City considers highly liquid, short-term investments with original maturities of three months or less to be cash equivalents. The cash pool operates like a demand deposit account in that all agencies, including the City, may deposit cash at any time and can also withdraw cash out of the pool without prior notice or penalty. Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments plus the cash held in escrow for vendors. Securities with maturities exceeding three months at the time of purchase are reported at fair value on the balance sheets; the net increase (decrease) in the fair value of those investments is reported as part of investment income.

Capital expenditures are initially funded by the Operating Fund, which is subsequently reimbursed by the Construction Fund.

Investments are reported at fair values based on quoted market prices for those or similar securities and are as follows at December 31, 2001:

U. S. government securities	\$16,867,846
Commercial paper	<u>16,710,395</u>
	<u>\$33,578,241</u>

NOTE 3: NOTES AND CONTRACTS RECEIVABLE

Other receivables are composed of the following as of December 31:

	<u>2001</u>	<u>2000</u>
Water main assessments	\$ 368,378	\$ —
Land sales receivable	272,453	173,113
Richmond Beach surcharge	<u>247,414</u>	<u> </u>
	888,245	173,113
Less current portion	<u>(86,615)</u>	<u>(27,599)</u>
Total other receivables, net of current portion	<u>\$ 801,630</u>	<u>\$ 145,514</u>

NOTE 4: UTILITY PLANT

Utility plant consists of the following as of December 31:

	<u>2001</u>	<u>2000</u>
Equipment	\$ 713,242,030	\$ 680,576,542
Buildings, fixtures, and grounds	<u>110,694,133</u>	<u>108,040,434</u>
Total plant in service	823,936,163	788,616,976
Less accumulated depreciation	<u>(225,141,848)</u>	<u>(205,482,179)</u>
	598,794,315	583,134,797
Construction in progress	170,421,339	134,421,110
Land	13,511,222	13,477,136
Nonoperating property, net of accumulated depreciation	<u>274,512</u>	<u>408,862</u>
Utility plant, net	<u>\$ 783,001,388</u>	<u>\$ 731,441,905</u>

During 2001 and 2000, the Fund capitalized interest costs relating to construction of \$7,524,877 and \$12,349,027, respectively.

NOTE 5: OTHER DEFERRED CHARGES

Other deferred charges consist of the following as of December 31:

	<u>2001</u>	<u>2000</u>
Capitalized information systems costs	\$50,381,422	\$39,231,119
Environmental liability costs	2,534,432	2,935,111
Intangible assets	1,194,051	1,194,051
Preliminary investigation costs	1,170,476	1,170,476
Less accumulated amortization	<u>(31,247,004)</u>	<u>(28,343,138)</u>
	<u>\$24,033,377</u>	<u>\$16,187,619</u>

NOTE 6: REVENUE BONDS

At December 31, 2000 and 2001, revenue bonds consisted of the following:

	<u>2001</u>	<u>2000</u>
2001 Water System Revenue Bonds, 4.50% to 5.00%, due through 2031, insured by a third-party insurer	\$ 52,525,000	\$ —
1999B Water System Revenue Bonds, 5.00% to 6.00%, due through 2029, insured by a third-party insurer	108,275,000	110,000,000
1999A Water System Revenue Bonds, 4.00% to 5.375%, due through 2029, insured by a third-party insurer	96,785,000	98,420,000
1998 Water System Revenue Bonds, 4.5% to 5.0%, due through 2027, insured by a third-party insurer	75,860,000	77,295,000
1997 Water System Revenue Bonds, 5.375% to 5.625%, due through 2026, insured by a third-party insurer	49,000,000	49,975,000
1995 Water System Revenue Bonds, variable rates averaging 3.3% in 1999, due through 2025, insured by a third-party insurer	42,900,000	44,000,000
1993 Water System Revenue Bonds, 4.7% to 5.5%, due through 2023, insured by a third-party insurer	<u>182,145,000</u>	<u>192,870,000</u>
	<u>\$ 607,490,000</u>	<u>\$ 572,560,000</u>

In November 2001, the Fund issued \$52,525,000 of Water System Revenue Bonds with varying annual and term principal payments due beginning in 2002 and ending in 2031, with annual interest rates ranging from 4.5% to 5.0%.

The Fund defeased certain bonds by placing investments acquired from the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the Fund's financial statements. At December 31, 2001, the First Lien Revenue Bonds and Bond Anticipation Notes are considered defeased. The difference between the cost to defease outstanding debt and the carrying value of bonds defeased by refunding bonds is deferred and amortized over the shorter of the remaining term of the refunded bonds or the term of the refunding bonds, using the effective interest method.

Proceeds of the revenue bonds are being used to finance certain capital improvement projects and conservation programs for the Fund.

Future principal and estimated interest payments for revenue bonds are as follows:

<u>Years ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 18,360,000	\$ 31,561,045	\$ 49,921,045
2003	19,205,000	30,682,199	49,887,199
2004	20,135,000	29,748,312	49,883,312
2005	17,075,000	28,728,535	45,803,535
2006	16,885,000	27,868,756	44,753,756
Thereafter	<u>515,830,000</u>	<u>342,847,616</u>	<u>858,677,616</u>
	<u>\$ 607,490,000</u>	<u>\$ 491,436,463</u>	<u>\$ 1,098,926,463</u>

Water System Revenue Bonds contain certain financial covenants, the most significant of which requires the Fund to maintain adjusted net revenue to provide for debt service coverage on the bonds and a reserve for the payment of annual debt service. The Fund must maintain adjusted net revenue of not less than 125% of actual annual senior lien debt service. Adjusted net revenues remaining after senior lien debt service has been paid must not be less than 125% of annual junior lien debt service. In 2001, adjusted net revenue was 137% of senior lien debt service, and adjusted net revenue available after senior lien debt service was paid was 708% of junior lien debt service. The Fund has obtained reserve insurance policies to meet its reserve requirements.

Net income	\$ 4,883,993
Add:	
City occupation tax	7,157,162
Depreciation and amortization	23,748,307
Interest on revenue bonds	29,435,024
Amortization of debt expenses and loss	1,338,285
Claims and damages and other expenses not paid in 2001	1,127,853
Noncash investment fair value adjustment	(439,359)
Rate Stabilization Fund	<u>1,252,000</u>
	68,503,265
Less: capitalized interest	<u>7,524,877</u>
Adjusted net revenue available for debt service	<u>\$ 60,978,388</u>
Senior debt service requirement (cash basis)	<u>\$ 44,540,206</u>
Senior lien coverage percentage	<u>137 %</u>
Adjusted net revenue available for junior lien debt service	<u>\$ 16,438,182</u>
Junior lien debt service requirement (cash basis)	<u>2,323,115</u>
Junior lien coverage percentage	<u>708 %</u>

NOTE 7: OTHER LONG-TERM DEBT

During 1993, the Fund entered into an agreement to borrow up to \$2,220,000 from the Washington State Department of Community Development under its Public Works Trust Loan Program for the construction of certain capital improvements. As of December 31, 2001 and 2000, the Fund owed \$1,418,601 and

\$1,536,817, respectively. Amounts borrowed under the agreement accrue interest at 1% per annum and are to be repaid in 19 equal annual installments, plus interest.

NOTE 8: ENVIRONMENTAL LIABILITY

The Fund has recorded an estimated \$1,300,000 liability for future environmental cleanup costs related to lead-based paint and arsenic contamination surrounding several standing water tanks as well as expected remediation efforts associated with underground fuel tank replacements. The liability is included in other long-term liabilities on the balance sheet. The total cost is expected to be recovered through rates over an estimated 30-year period.

The schedule below represents the changes in the estimated liability:

	<u>2001</u>	<u>2000</u>
Beginning liability	\$ 1,970,989	\$ 2,325,842
Payments	<u>(670,989)</u>	<u>(354,853)</u>
Ending liability	<u>\$ 1,300,000</u>	<u>\$ 1,970,989</u>

NOTE 9: RETIREMENT PLANS

Pension costs: All permanent Fund employees are eligible to participate in the Seattle City Employees' Retirement System (the System), a cost-sharing public employee retirement system operated by the City. Benefits vest after five years of covered service. City employees may retire after 30 years of service regardless of age; after age 52, with 20 or more years of service; after age 57, with 10 or more years of service; and after age 62, with five or more years of service. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by City ordinances. The System's financial report that includes financial statements and required supplementary information for the System is available through the City.

City employees are required to contribute 8.03% of their annual base salary to the System. The City's contribution rate was 8.03% as of January 1, 2001 and 2000. Employer rates are established by the City Council on a biannual basis. The Fund's contributions to the System for the years ended December 31, 2001, 2000, and 1999, were \$2,461,551, \$2,357,781, and \$2,430,912, respectively. The Fund's contribution in 2001 represents its full liability to the System.

The System issues stand-alone financial statements which may be obtained by writing to the Seattle City Employees' Retirement System, 801 Third Avenue, Suite 300, Seattle, Washington, 98104; telephone: (206) 386-1292.

Employer contributions for the City are as follows (dollars in millions):

<u>Year ended December 31,</u>	<u>City required contribution</u>	<u>City actual contribution</u>	<u>Percentage contributed</u>
1999	\$ 29.7	\$ 29.7	100 %
2000	30.8	30.8	100
2001	32.5	32.5	100

Actuarial data and assumptions

Valuation date	January 1, 2001
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	-0- years
Amortization period	Open
Asset valuation method	Market
Investment rate of return	8.00%
Projected general wage inflation	4.50%
Postretirement benefit increases	0.67%

Schedule of funding progress (dollars in millions):

<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liabilities (AAL) – entry age ⁽¹⁾ (b)</u>	<u>Unfunded AAL (UAAL) ⁽²⁾ (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll ⁽³⁾ (c)</u>	<u>UAAL as a percentage of covered payroll ((b-a)/ c)</u>
1/1/1999	\$ 1,375.0	\$ 1,326.6	\$ (48.4)	103.6 %	\$ 370.4	(13.1)%
1/1/2000	1,582.7	1,403.1	(179.6)	112.8	370.4	(48.5)
1/1/2001	1,493.1	1,490.3	(2.8)	100.2	383.7	(.7)

- (1) Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.
- (2) Actuarial accrued liabilities less actuarial value of assets.
- (3) Covered payroll includes compensation paid to all active employees on which contributions are calculated.

Deferred compensation: The City offers all of its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code (IRC) Section 457. The Plan permits employees to defer a portion of their salary until future years. The deferred compensation is paid to employees upon termination, retirement, death or unforeseen emergency.

Effective January 1, 1999, the Plan is an eligible deferred compensation plan under Section 457 of the IRC of 1986, as amended, and a trust exempt from tax under IRC Sections 457(g) and 501(a). The Plan is operated for the exclusive benefit of participants and their beneficiaries. No part of the corpus or income of the Trust shall revert to the City or be used for, or diverted to, purposes other than the exclusive benefit of participants and their beneficiaries.

The Plan is not reported in the financial statements of the City or the Fund.

It is the opinion of the City's legal counsel that the City has no liability for investment losses under the Plan. Under the Plan, participants select investments from alternatives offered by the Plan Administrator, who is under contract with the City to manage the Plan. Investment selection by a participant may be changed from time to time. The City does not manage any of the investment selections. By making the selection, participants accept and assume all risks inherent in the Plan and its administration.

NOTE 10: RISK FINANCING LIABILITIES

The City and the Fund are self-insured for certain losses arising from personal and property damage claims by third parties and for casualty losses to the Fund's property. Liabilities for identified claims and claims incurred but not reported have been recorded by the Fund.

For 2001 and 2000, liabilities for workers' compensation claims as well as other claims are discounted over a 15-year period at the City's rate of return on investments, 5.34% and 6.17%, respectively. Claims expected to be paid within one year were \$596,060 and \$620,340 at December 31, 2001 and 2000, respectively. The schedule below represents the changes in the liability for workers' compensation claims and other claims (risk-financing liabilities) as of December 31:

	<u>2001</u>	<u>2000</u>
Beginning liability	\$2,902,282	\$2,596,789
Payments	(2,142,911)	(631,191)
Incurred claims and changes in estimates	<u>1,127,853</u>	<u>936,684</u>
Ending liability	<u>\$1,887,224</u>	<u>\$2,902,282</u>

NOTE 11: COMMITMENTS AND CONTINGENCIES

Seattle Public Utilities has prepared a comprehensive environmental management plan for its Cedar River Watershed. The purpose of the Habitat Conservation Plan (HCP) is to protect all species of concern that may be affected by the operations of Seattle Public Utilities and City Light in the Cedar River Watershed, while allowing the City to continue to provide high quality drinking water to the region. The federal government has accepted the HCP. Expenditures are expected to be funded from a combination of operating revenues and debt.

The Fund has negotiated an agreement relating to compliance with the Surface Water Treatment Rule on its Cedar River supply system, which requires it to evaluate ozonation and filtration, and recommend changes to current treatment. A recommendation for ozonation compatible with filtration was provided to the Washington State Department of Health in November 1995, and approved in January 1996. The cost for an ozonation facility is estimated at \$80,000,000 to \$100,000,000, depending on facility size and treatment technology. It is anticipated that these estimated capital expenditures will be funded over the next decade, primarily through water revenue bonds. The current schedule would make this facility operational by 2004.

APPENDIX D

BOOK-ENTRY TRANSFER SYSTEM

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BOOK-ENTRY TRANSFER SYSTEM

The following information has been provided by DTC. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds (the "Beneficial Owners") should confirm the following with DTC or its participants (the "Participants").

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over two million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Bonds under the DTC system, in Authorized Denominations, must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

When notices are given, they shall be sent by the Tender and Paying Agent to DTC only. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements that may be in effect from time to time.

Redemption notices will be sent to Cede & Co. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

A Beneficial Owner will give notice to elect to have its Bonds purchased or tendered, through its Participant, the Tender and Paying Agent, and will effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Tender and Paying Agent. The requirement for physical delivery of Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distribution and payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Tender and Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Tender and Paying Agent or the City, subject to any statutory or regulatory requirements that may be in effect from time to time. Payment of redemption proceeds, distribution and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Tender and Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Tender and Paying Agent or the City. Under such circumstances and in the event that a successor securities depository is not obtained, new certificates are required to be printed and delivered.

With respect to Bonds registered in the name of Cede & Co., as nominee of DTC, the City and the Tender and Paying Agent will have no responsibility or obligation to any Participant or to any person on behalf of whom a Participant holds an interest in the Bonds with respect to (i) the accuracy of the records of DTC, Cede & Co. or any Participant with respect to any ownership interest in the Bonds; (ii) the delivery to any Participant or any other person, other than a bondowner as shown on the Bond Register, of any notice with respect to the Bonds, including any notice of redemption; (iii) the payment to any Participant or any other person, other than a bondowner as shown on the Bond Register, of any amount with respect to principal of, premium, if any, or interest on the Bonds; (iv) the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given or action taken by DTC as registered Owner; or (vi) any other matter. The City and the Tender and Paying Agent may treat and consider Cede & Co., in whose name each Bond is registered on the Bond Register, as the holder and absolute Owner of such Bond for the purpose of payment of principal and interest with respect to such Bond, for the

purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever.

The following information has been provided by the City.

The City may decide to discontinue use of book-entry transfers through DTC (or a successor securities depository). In that event, physical certificates will be printed and delivered.

Neither the City nor the Tender and Paying Agent will be required to transfer or exchange Bonds during the period between a record date and the next succeeding interest payment date or redemption date. For purposes hereof, record date will mean in the case of each interest payment date, the Tender and Paying Agent's close of business on the 15th day of the month preceding the interest payment date.

With respect to Bonds registered on the Bond Register in the name of Cede & Co., as nominee of DTC, the City and the Tender and Paying Agent will have no responsibility or obligation to any Participant or to any person on behalf of whom a Participant holds an interest in the Bonds with respect to (i) the accuracy of the records of DTC, Cede & Co. or any Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Participant or any other person, other than a bond owner as shown on the Bond Register, of any notice with respect to the Bonds, including any notice of redemption, (iii) the payment to any Participant or any other person, other than a bond owner as shown on the Bond Register, of any amount with respect to principal of or interest on the Bonds, (iv) the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given or action taken by DTC as registered owner, or (vi) any other matter. The City and the Tender and Paying Agent may treat and consider Cede & Co., in whose name each Bond is registered on the Bond Register, as the holder and absolute owner of such Bond for the purpose of payment of principal and interest with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever.

The City's obligations under the Ordinance, the Resolution and the Bonds are to the registered owner or owners of the Bonds, and the City will not be liable to the Participants or Beneficial Owners of Bonds registered in the name of any nominee of DTC or a successor depository, for any acts or omissions of DTC or such successor depository.

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